Agenda Dates: 06/22/06
07/19/06
Agenda Item: 1A

STATE OF NEW JERSEY

Board of Public Utilities
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CLEAN ENERGY

IN THE MATTER OF COMPREHENSIVE ENERGY EFFICIENCY AND RENEWABLE ENERGY RESOURCE ANALYSIS FOR 2005 -2008: FINAL 2006 PROGRAMS AND BUDGETS	))))	ORDER DOCKET NO. EX04040276

(SERVICE LIST ATTACHED)

BY THE BOARD:

This Order memorializes actions taken by the Board of Public Utilities (Board) at its June 22, 2006 and July 19, 2006 agenda meetings. At its June 22, 2006 meeting, the Board, *inter alia*, approved two procedural changes to its Customer On-Site Renewable Energy (CORE) Program for immediate implementation, as discussed more fully below. At its July 19, 2006 meeting, the Board approved all remaining provisions of the 2006 Clean Energy Program (CEP) budget not already approved.

Background and Procedural History

On February 9, 1999, the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et al. (EDECA or the Act) was signed into law. The Act established requirements to advance energy efficiency and renewable energy in New Jersey through the societal benefits charge (SBC), at N.J.S.A. 48:3-60(a)(3). EDECA further empowered the Board to initiate a proceeding and cause to be undertaken a comprehensive resource analysis of energy programs currently referred to as the comprehensive energy efficiency (EE) and renewable energy (RE) resource analysis. After notice, opportunity for public comment, public hearing, and consultation with the New Jersey Department of Environmental Protection (NJDEP), within eight months of initiating the proceeding and every four years thereafter, the Board would determine the appropriate level of funding for EE and Class I RE programs (now called New Jersey's Clean Energy Program or CEP) that provide environmental benefits above and beyond those provided by standard offer or similar programs in effect as of February 9, 1999.

As required by the Act, in 1999 the Board initiated its first comprehensive EE and RE resource analysis proceeding. At the conclusion of this proceeding, the Board issued its initial comprehensive resource analysis order, dated March 9, 2001, Docket Nos. EX99050347 et al. (March 9th Order). The March 9th Order set funding levels for the years 2001 through 2003, established the programs to be funded and budgets for those programs and determined that the EE programs and customer-sited RE programs would initially be administered by the State's utilities and that the grid-connected RE programs would be administered by the Board. The Board approved funding levels of $115 million for 2001, $119.326 million for 2002, and,

$124.126 million for 2003. By Order dated July 27, 2004, Docket Nos. EX03110945 et al., the Board adopted a final 2004 funding level of $124.126 million.

The Board determined, in the first comprehensive EE and RE resource analysis proceeding, that the utility administration was appropriate for a period of one year, during which time the Board, through a Request for Proposal that it issued, retained a consultant, Davies Associates, to assist in evaluating how best to continue the administration of the energy efficiency program and assist in identifying the appropriate entity to act as an Independent Statewide Administrator (ISA) for the Customer Sited Renewable Energy program. Davies Associates submitted its report to the Board on April 1, 2002.

With regard to the issue of administration, certain interveners, renewable energy and energy efficiency companies, environmental organizations and the Division of the Ratepayer Advocate have argued that there is an inherent conflict of interest in the utilities administering the energy efficiency and renewable energy programs, and that it would be more cost-effective for an ISA or the Board to oversee the funds. Other parties and the utilities have asserted that there are numerous advantages to utility administration, including existing experience and infrastructure associated with prior programs.

There were four public hearings held by the Board in May, 2000, after the issuance of the Davies Report. Public testimony and written comments arising from these hearings raised a number of program issues. Additionally, Board Staff held several interested party meetings to discuss concerns and recommendations regarding various existing programs.

By Order, dated January 22, 2003, Docket Number EX01070447, the Board established the New Jersey Clean Energy Council (Council) as advisors to Staff and the Board for planning assistance for the administration of the programs. [1]The Council includes broad representation from state and federal governmental entities, utilities, private firms, consumer and environmental advocacy groups and academia. It is responsible for making recommendations and assessments of the components of the CEP, programmatic effectiveness, the goals and objectives on a program-by-program basis, incentive levels, program delivery, consumer satisfaction, and administrative efficiency to Board Staff. The Council held its initial meeting on April 11, 2003.

By Order dated September 11, 2003, Docket No. EO02120955, the Board adopted recommendations set out in a report from the Council which modified the administrative structure of the program. The Order directed OCE to assume the role of program administrator, authorized the establishment of the Trust Fund, and authorized the OCE to "contract for and with program managers and implementers to manage and implement the 2004 New Jersey Clean Energy program and also for any necessary administrative duties."

By Order dated May 7, 2004, Docket Nos. EX03110946 and EX04040276, the Board initiated its second comprehensive EE and RE resource analysis proceeding and established a procedural schedule for the determination of the funding levels, allocations and programs for the years 2005 through 2008. In this proceeding the Board directed the OCE to review the programs and budgets with advice from the Council. The Board also directed OCE to hold hearings and meetings to discuss programs and budgets. By Order dated December 23, 2004, Docket No. EX04040276, the Board concluded its proceeding, set funding levels for the years 2005 through 2008, and approved 2005 programs and budgets. The Board approved funding levels of $140 million for 2005, $165 million for 2006, $205 million for 2007 and $235 million for 2008.

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[1] Commissioner Hughes abstained on the vote to create the New Jersey Clean Energy Council at the December 18, 2002 Agenda meeting in Docket Number EX99050347 et al.

In August of 2004, an assessment of the EE market potential was performed by KEMA, Inc. A similar assessment of RE market potential was performed by Navigant Consulting, Inc. Both of these studies assessed the technical, economic and market potential for a number of technologies in both the residential and commercial/industrial markets. KEMA concluded that the current programs (those in place in 2004) were designed to overcome the existing market barriers in the markets they serve and recommended that the Board continue with the existing major program designs in major market sectors. Navigant assessed the RE marketplace and concluded that modified or new programs would compliment existing programs to allow the State to gradually decrease rebate levels and maintain market momentum. KEMA's and Navigant's recommendations were discussed and considered by the Council in developing proposed 2005 programs and budgets for consideration by Staff and the Board.

Summit Blue also recently performed an extensive study of the EE marketplace in New Jersey. Summit Blue conducted over 2,000 surveys of market participants to identify market barriers and issues with program design and delivery, as well as market penetration rates and incremental costs. Summit Blue also reviewed the Board's goals and assessed each programs contribution towards the goal. The firm concluded that the CEP has generally been successful at transforming the EE market in New Jersey, and that its existing portfolio of programs is adequately varied and well structured. Summit Blue's preliminary recommendations for EE were considered by the Council Committees in developing proposed 2006 programs and budgets. A similar assessment of the RE programs is scheduled to commence in 2006 and the results of this assessment will be considered in developing future changes to these programs. The OCE also considered Summit Blue's preliminary conclusions in providing the recommendations for the specific EE programs recommended in this Order.

The Board is in the process of transitioning the management of many of the EE and RE programs from the utilities and the OCE to a Program Coordinator and Market Manager(s) to be selected through a competitive procurement process. Annual CEP programs and budgets are typically reviewed and approved by the Board prior to the end of each year. However, in late 2005 the OCE recommended that the development of final 2006 budgets be delayed until: (1) the Market Manager(s) were engaged and made part of the process of developing 2006 programs and budgets and, (2) the recommendations of Summit Blue were received. The Board concurred with this recommendation, and by Order dated December 23, 2005, Docket No. EX04040276, approved the continuation of the 2005 programs and budgets as preliminary 2006 programs and budgets with the expectation that final 2006 programs and budgets would be submitted to the Board for review in mid-2006.

While preliminary recommendations received from Summit Blue were considered in the development of the final 2006 program and budget recommendations discussed in this Order, the Board notes that hiring of the Market Manager(s) did not occur in early 2006 as anticipated. The detailed and final recommendations by Summit Blue presented to the Council on June 6, 2006 will be considered further for future program changes as part of the continuing program refinement.

In addition to the Summit Blue, KEMA and Navigant market assessments, numerous baseline studies, process evaluations and program evaluations have been performed over the past several years that have supported the development of and modifications to the programs. All of these studies are available for review in the *njcleanenergy* website library at: http://njcleanenergy.com/html/5library/0_library_home.html

The Council met on March 23, 2006 to discuss the process of establishing final 2006 programs and budgets. The Council directed its three committees: Energy Efficiency, Renewable Energy, and, Marketing and Communications, to meet and to prepare recommendations for consideration by the full Council by the end of May, 2006. Board Staff participated in each of these committees in an oversight role.

The Council's EE Committee also held several meetings in the fall of 2005 to discuss 2006 programs and budgets. OCE Staff, as a member of the EE Committee and each of its various subcommittees, participated in the development of recommendations to the full Council. Board Staff also participates in the Council, although it is not a voting member. OCE Staff ultimately decides which specific program and budget recommendations will be made to the Board. Existing and new EE programs were reviewed and evaluated by Board Staff in order to achieve the goals and objectives established and approved by the Board for EE programs. Entities suggesting new programs were required to submit program proposals that included a program description, target markets, program offerings/incentives, goals and detailed budgets. Other entities submitted redlined versions of current program descriptions.

The EE Committee received a number of proposals for new programs as well as proposed changes to existing programs. The Committee met on April 4, 2006 to review the proposals and to discuss the process for preparing recommended final 2006 programs and budgets. Subsequent to the meeting of the full EE Committee, its Residential and Commercial and Industrial (C&I) subcommittees met on several occasions to discuss proposed programs and budgets. The Low-Income subcommittee developed its proposal through emails and telephone calls, but Staff did not participate in this particular process. Proposals were circulated via email and discussed at the meetings of the subcommittees.

Subsequent to the meetings of the subcommittees, the full EE Committee met again on May 17, 2006 to review the programs and budgets recommended by the subcommittees. The EE Committee was able to reach a consensus on almost all issues as discussed further below.

The RE Committee met monthly since the fall of 2005 to discuss final 2006 renewable energy programs and budgets. Existing and new renewable energy programs were reviewed and evaluated by Board Staff in order to achieve the goals and objectives established and approved by the Board for the renewable energy programs. At its May 30, 2006 meeting, the Committee reached a consensus on all issues except the allocation of additional Customer On-Site Renewable Energy (CORE) Program funds to the various CORE program budget categories, as discussed further below.

Staff informed the Committee during its January meeting that, due to the overwhelming success of the CORE Program, the number of applications received to date, if approved, would exceed the CORE Program budget. To manage the large volume of applications, the Board, by Order dated February 13, 2006, Docket Number EO04121550, approved the creation of a project "queue." Projects that submit complete applications are now placed in the queue until additional funds become available, either through reallocation of other funds to the program or through cancellation of previously approved projects. The Board also approved a second reduction in CORE rebate levels to address the increasing demand for such rebates. Residential applications for rebates on solar photovoltaic systems are now limited to 10 kilowatts of capacity. This limitation was made effective for applications approved after the Board's February 13, 2006 Order.

By Order dated March 22, 2006, Docket Number EO04121550, the Board established further caps on the level of CORE rebates that may be approved under the program. The Board directed that rebate payments in any budget year cannot exceed that year's approved program budget. Rebate approvals are now based on a cash flow analysis that incorporates assumed project completion rates. The Board also directed that the total level of rebates approved cannot exceed 80 percent of the anticipated CORE total program funding level through 2008 as approved by the Board.

Given the extensive backlog of projects in the queue, the RE Committee focused its budget discussions on allocating as much funding as possible to the CORE Program to allow projects to be released from the queue, while retaining sufficient funding for the other programs that are needed to meet the broader RE objectives. The RE Committee also discussed the imposition of a requirement that RE equipment for which a CEP rebate was provided be restricted from being removed the State for a minimum of 10 years.

Board Staff, with the assistance of the Council and its Committees and work groups, has reviewed and evaluated the aforementioned outside evaluation reports as well as the recommendations of the current EE and RE managers, to establish the 2006 programs and budgets designed to meet the goals and objectives established and approved by the Board for the CEP. These were set forth in two Board Orders, dated May 7, 2004, Docket Numbers EX03110946 and EX04040276, and December 23, 2004, Docket Number EX04040276, and summarized below:

EE and RE Annual Goals based on the 2005 through 2008 funding Levels				
Years	Electric EE Goal MWh	Natural Gas EE Goal Dtherms	Solar RE Goal MW	Class I RE Goal ** MW
		Actual		
2003	285,576	408,583	1.7	76*
2004	328,512	432758	2.6	-
2005	382,845	617,261	5.5	14.9
		Goals		
2005	341,770	489,305	4	19
2006	409,454	586,206	14	38
2007	486,958	697,167	27	66
2008	575,568	824,028	39	89
Total	1,813,750	2,596,706	90	300**
* Includes Existing Class I Renewable Energy Facilities				
** Includes CORE installed or Grid under contract within Total				

The achievement of these goals in an efficient, timely and cost effective manner is the primary consideration underlying the proposed programs and budgets contained herein.

Since the Board announced, in 2004, its intention to transition most EE programs from utility management to that of a third party Market Manager, many utility employees involved in managing the EE programs have found other positions in the utility, retired or left the company. While the utilities have maintained a sufficient level of staff to continue managing the programs, the loss of several key staff members has significantly hampered their ability to develop and implement new program initiatives. Given this state of affairs, the EE Committee was directed by Staff to focus on changes to existing programs that could be implemented using the existing resources and infrastructure. New programs or changes to existing programs that require the development of new infrastructure or procedures, or the hiring of implementation contractors, will be revisited when the Market Manager(s) are hired. These initiatives will be further developed in the near future and revisited when the EE Committee reconvenes to begin discussing 2007 programs and budgets.

The proposed Administrative budgets were developed by the OCE with input from the Marketing and Communications Committee (regarding marketing), the New Jersey Department of the Treasury (Treasury) (regarding OCE staff and overhead costs), Rutgers Center for Energy, Economic and Environmental Policy (CEEEP) (regarding program evaluation budgets) and the various Committees (regarding sponsorships, dues and special projects). The Marketing and Communications Committee held monthly meetings over the past several months to develop proposed marketing activities and budgets which, after Staff review and approval, were incorporated into the proposed Administration budget.

The three Committees submitted final recommendations to the Council on June 2, 2006, which met on June 6, 2006 to discuss the recommendations. The Committee recommended that several long-standing CEP programs be continued in their current form, with certain modifications. These include:

- Residential Gas and Electric HVAC Program (the Residential HVAC-Gas and Residential HVAC-Electric programs were combined into one program in 2003)
- Residential New Construction Program
- Energy Star Products (the Residential Lighting, Windows, Appliances and Retrofit Programs were combined into one program in 2003 and 2004)
- Residential Low-Income
- Commercial and Industrial Construction
- Customer On-Site Renewable Energy Program
- Renewable Energy Project Grants and Financing Program
- Renewable Energy Business Venture Assistance Program
- Renewable Energy Manufacturing Incentive Program

The Committee voted to add or delete other programs, as discussed further below. Certain new programs were also recommended as pilots to test the validity of the proposed program objectives.

In addition to the market assessments and evaluations which form the basis for continuing programs and developing new programs within the overall program budget, the OCE has worked with and/or been a member of several national and regional not-for-profit organizations since the initiation of the CEP in 2001, including:

1. The National Association of Regulatory Commissions (NARUC) – Energy Resource and the Environment Committee;
2. The National Association of State Energy Officials (NASEO) – Energy Efficiency and Renewable Energy Committees;
3. The Clean Energy States Alliance (CESA);
4. The Northeast Energy Efficiency Partnership (NEEP);and
5. The Consortium for Energy Efficiency (CEE)

OCE Staff recommends continued funding of the membership dues for these organizations, as well as other administrative expenses, as discussed more fully below.

Discussion

1. *Total 2006 Funding*

Staff recommends a funding level for 2006 programs of $309.114 million (See Table 1). It consists of three components: 1) carryover of unspent funding from previous years (carryover); 2) new funding to be authorized by the Board for 2006, and 3) interest earned on fund balances. Each is discussed in detail below.

The carryover component of CEP funds amounts to $141.505 million. It has three subcomponents. CEP funds are currently held in the Clean Energy Program Trust Fund (Trust Fund), administered by Treasury, and in a separate fund administered by the New Jersey Economic Development Authority (EDA), which manages several of the Board's RE programs. The year-end balances (as of December 31, 2005) held in these two funds represent unspent funds from past years available for 2006 programs (including previous commitments payable in 2006) in the amount of $137.905 million. In addition, utility payments into the Trust Fund due for November and December 2005 were made in early 2006 in the amount of $3.514 million, as were a number of Solar Alternative Compliance Payments[2] (SACPs) in the amount of $0.086 million owed for 2005 activities. These payments are added to the year-end balances and are included in the calculation of carryover funding shown on Table 1.

Staff recommends new funds for 2006 in the amount of $162.609 million. By Order dated December 23, 2004, Docket No. EX04040276, the Board approved a new funding level for 2006 of $165 million for EE and RE programs. The Board also set out the monthly amounts each utility was permitted to collect from ratepayers through the societal benefits charge (SBC) for EE programs for the period from 2005 to 2008. By Order dated July 27, 2004, Docket Nos. EX03110945 and EO02120955, the Board modified the Order dated January 27, 2004, Docket Nos EO04030178 and EO02120955 to authorized each utility to deduct its monthly program expenditures from its regular monthly payments of SBC funds to the Trust Fund, with the recovery of such costs subject to regulatory reviews in future proceedings before the Board. Pursuant to this continued policy, each utility deducts its monthly program expenses from its monthly CEP-related SBC collections and deposits the difference into the Trust Fund. If a utility's expenditures exceed its SBC collection level in any month, a credit is carried forward into the next month. As set forth in the dated July 27, 2004 Order, this process was continued because in the Order dated April 30, 2004, Docket Nos. EO04030178 and EO02120955 the Board denied the utilities bid on the solicitation for program management services. Therefore, it would not have been cost effective to revise and change their cost accounting system for the short period of time anticipated to bring on the market manager services.

As of year-end 2005, the utilities carried forward a total credit of $2.391 million (2005 Year End Fiscal Agent EE Credit). As noted above if a utility's expenditures exceed its SBC collection level in any month, a credit is carried forward into the next month and reconciled. However, since this occurred at the end of the budget year the credit must be reconciled and noted within the overall 2006 budget process. The amount paid into the Trust Fund by utilities in 2006 must therefore be reduced by an amount equal to the credit. It follows that the net new funding to be budgeted in 2006 after applying this credit is $162.609 million.

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[2] SACPs, as defined in N.J.A.C. 14:8-2.2, are payments made in lieu of complying with the solar electric generation requirements set out in the Board's Renewable Portfolio Standards (RPS) Rule. Pursuant to N.J.A.C. 14:4-8.10(e), these payments must be allocated to the solar program.

Moreover, Treasury has indicated that an interest payment, estimated to be $5 million, will be credited to the Trust Fund in July 2006. While this amount has been included in the calculation of 2006 funding, as discussed in the renewable energy section of this Order, these funds will not be available to the program until they are actually deposited into the Trust Fund in July 2006.[3]

The total available funding set forth in Table 1 and discussed above will be utilized for both new program spending in 2006 and to pay incentive payments and rebates that become payable in 2006 from commitments made in previous years. A commitment for a rebate is made in the year the rebate application is approved, while the rebate is actually paid when the relevant project is completed, after any required inspections are performed. A committed rebate for an Energy Star Home, Commercial & Industrial (C&I) New Construction, Combined Heat & Power (CHP) or Customer On-Site Renewable Energy system, for example, may, under current program guidelines, be paid up to two years after the approved commitment, due to construction lag time. Thus, as set forth in Table 2, Column (k) (Committed Expenses), a significant portion of the total $309.114 million funding available for 2006 ($210.020 million) is earmarked to pay rebate commitments made prior to 2006. It follows that, under Staff's proposed budget, there will be $99.094 million[4] of new funding available for program and administrative spending in 2006.

2. Allocation of Funding to Program Categories

In its December 23, 2004 Order, the Board allocated new funding to three budget categories: energy efficiency (EE), renewable energy (RE) and administration. The Board also adopted specific budgets for 2005 for each of the three budget categories. These budgets were modified by the OCE, as authorized by the Board, over the course of the year to reflect actual program activity. Table 2 sets forth 2005 budgets and actual 2005 expenditures. Actual expenses in each budget category were deducted from the final 2005 budget to determine carryover in each of the budget categories.

In addition, not all of the funding available in 2005 had been allocated to a specific program. The unallocated funding included interest and SACPs that were not allocated to a specific program and additional carryover from years prior to 2005. The additional carryover from previous years is a function of the fact that budgets were set in those years based on a forecast of expenses. Actual expenses were lower than those forecasted, and the difference has not, to date, been allocated to a program by the Board. Therefore, portions of the carryover funding set forth in Table 2 have been allocated to one of the three budget categories without having been allocated to a specific program.

Table 2 also shows the amount of new 2006 funding allocated to each of the three budget categories. In its December 23, 2004 Order, the Board determined that the $165 million in new funding for 2006 would be allocated as follows: $113 million to EE, $52 million to RE, and that up to 10 percent of each of these amounts could be deducted for administrative expenses. The 10 percent administrative budget cap was set by Board Order dated December 22, 2003, Docket Number EO02120953, and based on an analysis of other states' administrative budgets for entities that run similar programs. This cap was lower than the amount expended by the utilities for their overall administration costs in 2003. Both OCE and the utilities currently report

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[3] After the Board's vote on this matter, but before the execution of this Order, the aforementioned interest payment was made into the CEP Trust Fund in the amount of $5,102,893.26. This precise amount will therefore be budgeted in accordance with the terms of this Order.

[4] Table 2, Column I indicates $101.144 million. The $2 million difference is the $2 million legislated for Comfort Partners.

administrative costs in the same manner. The amounts shown in Table 2 for new 2006 funding (Column d) reflect this allocation ($113 million for EE and $52 million RE, each less 10 percent for administration). As discussed later in this Order, Staff recommends that a significant portion of the budget available for administration be reallocated to the RE programs, such that the proposed administrative budget is well below the 10 percent cap. This is only possible because the Requests for Proposals for three CEP Market Managers issued by Treasury have not yet been awarded and will not be available through the end of 2006.

As stated previously, the available funding will be utilized to both pay incentives for projects completed in 2006 for which commitments were made in a previous year and for current program activities. It will also fund the Program Coordinator and Market Manager budgets when the RFPs issued by Treasury in August 2005 are completed, approved by the Board and awarded by Treasury. Accordingly, Table 2 includes the level of available funding (including funds earmarked for outstanding grant and rebate commitments) in each budget category as of December 31, 2005.

Table 2 also reflects the fact that the Council and Staff are recommending an overall reallocation of the funding to the RE category in response to the massive success of the CORE program. Specifically, CORE has received a large number of rebate applications that, if completely approved, would exceed the Board approved CORE budget. In its March 22, 2006 Order, Docket No. EO04121550, the Board approved the establishment of a CORE program queue placing projects in line to receive rebate approvals as additional funds become available, either through cancellation or termination of projects that have previously received rebate approvals, or by allocation of additional funding to the CORE program. On April 14, 2006, the OCE authorized budget line item transfers of $28.488 million to allocate additional funds ($15.675 million) to CORE from the overall RE funding total and the line item transfers shown in Table 2 ($12.813 million), as discussed and presented to the Board on April 12, 2006. OCE Staff's recommendation was based on its assessment that, because of variations in program activity levels, transfer of these funds would not materially affect the programs from which the funds were transferred.

Accordingly, Staff and the Council recommend that an additional $26.181 million be allocated to the CORE program. There are two sources of the additional funding:

1. $21.973 million in Unallocated Funding. The amount includes $792,132 in SACPs which were previously reallocated to the CORE Program as part of an April 14, 2006 line item transfer. The Council and Staff propose reallocating the remaining $21.181 million to the CORE Program.
2. $5 million in estimated interest payments. Staff and the Council recommend allocating the full amount of the interest payment to the CORE Program upon receipt of the payment. Treasury has provided the above referenced, updated estimate of the interest payment, but the precise amount will only become known upon transfer of funds into the CEP Trust Fund.[5]

In addition, the OCE recommends that $1 million be allocated from the Administration budget to the EE budget for a new program that will support the installation of high efficiency HVAC equipment in State-owned facilities, requested by Treasury and discussed below. The total budget for this program would be $4.5 million, with the remaining funding coming from the EE budget category.

[5] See footnote 3

OCE also recommends two changes to the funding allocation recommended by the Council as follows:

First, as noted above, Treasury recently provided the OCE with an updated estimate of interest equal to slightly more than $5 million[6]. The original estimated interest payment, as provided by Treasury for planning the 2006 Program and Budget, was $4 million. OCE recommends that the additional interest, the difference between the estimated interest and the actual interest, be allocated to the CORE program as recommended by the Council.

Second, the available funding estimates reviewed by the Council did not include the 2005 Year End Fiscal Agent EE Credits which, as discussed above, reduced the new funding available for 2006 by $2.391 million. OCE recommends that the Total Funding be reduced by this amount (as reflected in Table 1) and that the 2005 Year End Fiscal EE Credit be allocated to the EE programs, since the credit is a function of utility spending, the vast majority of which is for EE programs. For the reasons discussed below, OCE further recommends that the credit (effectively a reduction in the total budget) be specifically allocated to the Change-A-Light Program, which shall have its 2006 budget reduced by this amount. This recommended reduction in the Change-A-Light budget within the Energy Star Products program budget is due to a significant reduction in resources at the utilities which manage these programs, as well as continued delays in awarding the Market Managers contract. Given this lack of resources, the CEP does not have the ability to implement the Change-A-Light program at the same level it has in the last two years.

In accordance with a long-standing Board requirement, Staff's proposed reallocations of funding will not materially diminish the programs from which the funds are transferred. The above referenced unallocated funding was, by definition, never allocated to a specific EE or RE program by the Board. Allocation of this funding to CORE will not, therefore, materially diminish any other program. Moreover, the Board and OCE Staff strive to keep CEP's administrative costs as low as reasonably possible, and have succeeded in doing so. Therefore, reallocation of some of these funds to an HVAC efficiency program for State facilities will not impair CEP administration, but will further the realization of the Board's energy efficiency goals by shifting unneeded funds from administration to a specific, useful EE program.

The Committees developed budgets for the existing programs based primarily on past experience and input from current program managers, also taking into consideration the recommendations included in the various evaluation and market assessment reports discussed above, as well as input from national and regional organizations. For example, the utilities have managed a statewide Residential HVAC Program for over five years. Utilizing their management experience, and taking into consideration the proposed changes to the program, the utilities estimated the number of rebates to be paid in 2006 and used this estimate to develop a proposed budget for the program. For other programs, such as the Residential New Construction Program and CORE Program, program managers developed proposed budgets based in large part on the number of commitments made in previous years that are expected to be paid in 2006. For new programs, the Committees estimated market penetration rates and incentive payments and developed administrative and marketing budgets as part of overall program budgets.

OCE administratively staffs the Council and the Committees and assists and participates in the overall discussion and development of recommendations. The following discussion summarizes the recommendations of the Council, which are considered herein by Staff when making its ultimate recommendations to the Board.

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[6] See footnote 3

The recommendations for the continuation of the existing programs and the implementation of new or modified programs or pilots are based in part on the analysis and evaluation set forth in the various EE and RE market assessments. The proposed 2006 programs and budgets are based on the 2005 budgets for each program, as well as actual 2005 expenditures, and are reviewed and evaluated by OCE to determine if the current program funding will achieve Board approved goals and objectives.

3. Proposed Funding for Specific Energy Efficiency Programs

The EE Committee and Staff discussed all existing EE programs, as well as several new program proposals, in order to determine the best way to achieve the energy efficiency goals and objectives established by the Board. As stated above, both Summit Blue and KEMA recommended maintaining the current specific programs for residential and commercial/industrial EE markets in order to achieve these goals. Staff and the EE Committee reviewed and evaluated 2005 budgets for specific programs in each EE market (residential and commercial and industrial), the general overall 2005 EE budget, and actual 2005 expenditures to determine if the Board's objectives could be achieved at current funding levels. The following summarizes the recommendations of the EE Committee and Staff, which were also discussed by the Council. All new projects or programs were submitted consistent with the process established by the OCE to review the cost effectiveness of the new project or program. This included a program description, target markets, program offerings/incentives, goals and detailed budgets. The final recommended funding levels for these programs are set forth in Table 3.

Residential Gas and Electric HVAC Program
The Residential Gas and Electric HVAC Program provides rebates to customers that purchase high efficiency heating and cooling equipment. The program requires proper sizing and installation of such equipment, which can significantly increase savings. In 2005, CEP rebates for heating equipment under this program were increased as a tool to help customers mitigate the impact of the anticipated natural gas price increases. These higher, temporary rebates expired on April 30, 2006.

New federal efficiency standards for cooling equipment became effective in 2006. These standards raised the minimum Seasonal Energy Efficiency Ratio (SEER) for central air conditioners from 10 (a level in effect for at least a decade) to 13. In anticipation of these changes, OCE had previously modified the CEP HVAC program to eliminate rebates for equipment with a SEER of 13 or below. No further changes to the rebates for cooling equipment were recommended at this time, since the cooling season is upon us and the program strives to give installers and retailers several months notice regarding any rebate modifications. The Committee and Council recommend that any additional changes to the cooling equipment rebates should be considered for implementation in 2007.

While potential changes to heating equipment rebates were discussed by Staff and the EE Committee, no consensus was reached. Discussions regarding heating equipment rebates will continue over the summer and proposed changes, if any, will be forwarded to the Clean Energy Council and Staff over the next few months for implementation in the fall, prior to the start of the heating season. Several potential structural changes to the program were also discussed and will be considered for recommendation when the Market Managers are in place. These include changes to the current procedures for ensuring HVAC systems are properly sized and installed and potentially adding incentives for proper operation and maintenance of existing heating and central air conditioning units.

Staff agrees with the Council's recommendations that no further modifications be made to the Residential Gas and Electric HVAC Program at this time. It is important to appropriately time program changes to enable programs to impact the market as designed. Retailers and suppliers need to have sufficient advance notice of program changes so they can order qualifying equipment. Additionally, the final recommendations of the Market Assessment Report done by Summit Blue were not available in time to be adequately considered, so Staff agrees with the Council that appropriate changes should be discussed over the next few months. If program modifications are deemed necessary, they should be timed to impact the retailers' and suppliers' stocking practices and when the infrastructure (including a Market Manager) is in place to enable the effective implementation of significant structural program changes. Any changes to equipment rebates should also be considered as part of the OCE review of the utilities' Compliance Filings discussed below after consultation with the Council. Staff has also reviewed the proposed budget for the HVAC program, and believes it is appropriate based on the current rebate and expected participation levels.

Residential New Construction Program
This program provides financial incentives to builders that construct new homes meeting the New Jersey Energy Star Homes standards. These standards require homes to be at least 30 percent more efficient than the current State energy code. In 2005, the program enjoyed considerable success. Over 28 percent of new homes receiving a certificate of occupancy were certified as New Jersey Energy Star Homes.

In meetings between the EE Committee and Staff, a general consensus emerged that a multi-year plan should be developed for 1) reducing incentives to builders, through reduced rebates and the shifting of implementation costs from the CEP to the builders and; 2) increasing marketing to stimulate consumer demand for Energy Star Homes. The EE Committee's proposal also recommended that a plan be developed to reduce inspections through sampling and to consider additional incentives for homes qualifying for the federal tax credit. Staff agrees with these proposed modifications, and Staff believes that these concepts should be developed further over the next few months and considered for implementation in 2007.

The program currently requires a series of inspections on 100 percent of the homes in the program. The EE Committee recommends that a sampling protocol for inspections be developed and implemented later this year to reduce the number and cost of inspections. The program will continue to complete 100 percent of the pre-dry wall inspections and reduce final inspections to a random15 percent, consistent with approved Residential Energy Services Network and USEPA protocols. It is estimated that this program modification would reduce program implementation costs by over $700,000 per year, without negatively impacting the quality of home construction.

Recent federal legislation provides for tax incentives to homes that exceed the building code by 50 percent. This standard significantly exceeds current program requirements. The tax credit was estimated to equal less than half of the incremental cost of the measures needed to meet this standard. Staff and the EE Committee believe that additional financial incentives for homes that qualify for the tax credit should be considered in the future. This possibility will be discussed further among Staff and the Committee and a subsequent recommendation will be provided.

This program has an impressive record of success, and Staff has previously been reluctant to lower rebates because of the potentially significant impact such a reduction would have on builders who are in part responsible for implementing the program. However, in a CEP evaluation report performed by the Vermont Energy Investment Corporation (VEIC) entitled "NJ's Energy Star Home Program Incentive and Smart Growth Analysis" dated March 1, 2003, VEIC, recommended that rebates be lowered. Staff believes it is appropriate at this time to develop a specific plan for this and, at the same time, increase marketing activity so that the program's market share is not negatively impacted. It is imperative for the continued success of the program to generate consumer demand for the product.

Staff also believes it is important to reduce the implementation costs of this program. It therefore supports the development of a sampling protocol to replace the current 100 percent inspection system. As another cost saving measure, Staff also recommends that the utilities be permitted to deduct reinspection fees from rebates awarded to builders that have failed first inspections. The reinspection fee was previously permitted to reduce program costs and motivate builders to maintain adequate construction standards. However, implementation contractors have experienced difficulty collecting these fees from builders. Staff's recommendation is designed to facilitate collection and lower costs. Staff has also reviewed the budget approved by the Council and believes it is adequate, based on the changes proposed and historical data.

Energy Star Products Program
This program provides some financial incentives and support to retailers that sell energy efficient Energy Star products, such as appliances or compact fluorescent light bulbs. The program also provides limited incentives to customers that purchase Energy Star products. In 2005, the program received the Energy Star Partner of the Year award from the United States Environmental Protection Agency (EPA) and the United States Department of Energy for the second consecutive year.

Staff and the EE Committee recommend maintaining the main components of this program at current levels, including retailer support ($835,000), rebates for room air conditioners ($875,000) and the free home energy audit ($870,000). The program has also been part of the national Change-A-Light campaign for the past several years. The utilities and OCE Staff are finalizing their recommendations regarding the scope of the Change-A-Light campaign in 2006, and discussing issues related to the identity of the contracting entity if the campaign is implemented in a manner similar to last year. The Committee's proposed budget includes funding the Change-A-Light campaign at the same level as 2005 ($4.050 million).

The Board recently approved, for 2006, an expanded statewide scope for the Home Performance with Energy Star Pilot. This new component of Energy Star would subsidize one-stop energy efficiency improvements to existing homes. The EE Committee and Staff propose a budget of $5.1 million, as set forth in Table 3. An implementation contractor has been engaged by the utilities and is in the process of recruiting and training contractors. A program kickoff campaign is anticipated in September. The proposed budget includes funding for the expanded, statewide program.

Staff agrees with the Council that the main components of this program should be maintained at the current levels, since they are successful, supported by the Summit Blue recommendations and appropriately funded. One exception to this recommendation is the Change-A-Light campaign. Summit Blue recommended that this initiative, along with others, be expanded to operate on a year-round basis. However, due to the protracted transition period between utility and Staff management of EE programs, the utilities are unable to support the type of Change-A-Light campaign currently in existence. OCE Staff is also currently unable to take on the responsibility required, due to lack of adequate resources. Therefore, Staff recommends that it be allowed to work with the utilities to develop an alternative, more focused version to Change-A-Light for the fall campaign and to work with the Council over the next few months to discuss Summit Blue's recommendations. Staff further recommends that the Change-A-Light budget recommended by the Council be reduced by $2.391 million (the amount of the 2005 Year End

Fiscal Agent EE Credit) to reflect the fact that the new iteration of this program is likely to be scaled down from the current version. Staff also recommends that the Board allocate an additional $120,000 from the proposed Change-A-Light budget to the budget for the Energy Conservation Kits, discussed below. Adoption of OCE's recommended changes, which are incorporated into Table 3, would reduce the Change-A-Light budget from $4.05 million to $1.539 million, an amount which OCE believes is sufficient for the currently planned activities.

Although the Council did not address it specifically, Staff further recommends that the utilities be instructed to initiate Summit Blue's recommendation to increase the Window Initiative. This initiative promotes the sale of energy efficient windows through increased training and marketing in connection with these products. Specifically, Summit Blue recommended that extra training be provided for retailers, which is also consistent with a recommendation made previously in the KEMA Report entitled New Jersey Energy Efficiency and Distributed Generation Market Assessment. The Window Initiative does not require any additional funding. For these reasons, Staff believes the Council's proposed budget as modified herein by Staff, should be approved by the Board.

Department of Community Affairs (DCA) Low Energy Housing Initiative Program
DCA and the Board are in the process of negotiating a Memorandum of Agreement (MOA) regarding implementation of the Low Energy Housing Initiative Program. As part of this agreement the DCA Green Homes Office would initiate an Urban Microload to "Zero Energy" Housing Pilot which will utilize high performance design principals and passive and active solar strategies to construct 20-25 housing units. DCA would also develop a New Jersey Home Energy Raters Alliance Program, which would include a membership organization of home energy raters to standardize and increase home energy ratings. Should the MOA be finalized, it will be submitted to the Board for approval.

Staff supports this pilot program with DCA and has been working closely with that agency on the details of the MOA to ensure that energy efficiency is a significant focus of this initiative. Program details will be set down in this MOA. The pilot will incorporate the lessons learned from the Board's previously implemented Atlantic City Low Income pilot and apply them to this DCA neighborhood project targeted at urban areas. All homes within the project will be constructed to higher efficiency standards than current code requirements, with the goal of reducing to zero the energy footprint of the home. This will help lower the homeowner's energy costs, potentially increasing the value of these homes. The pilot could also help reduce future Universal Service Fund costs incurred by New Jersey. The information learned in this neighborhood pilot will be applied to DCA's affordable housing programs. Homes are durable, and efficiency is much less expensive if initially designed into the initial structure. Losing that opportunity gives rise to a significant energy loss over time. Thus, Staff supports the development of more efficient affordable housing in New Jersey.

Solar Hot Water Pilot Program
A new program that would provide financial incentives for domestic solar hot water systems was proposed to the EE Committee, but no agreement was reached as to whether the proposed program should be funded in 2006. Additional evaluations were requested to determine cost effectiveness within the different market sectors and between a replacement for electric or natural gas heating. In addition, the Committee recommended evaluations within an overall "Green Building" approach, as opposed to specific HVAC new equipment installation or replacement of an existing system.

Certain members of the Committee opposed funding for solar hot water system incentives. They raised concerns regarding whether solar hot water, particularly as an alternative to gas fired hot water heaters, is cost effective. They believed that funding other, more cost effective technologies was a better alternative. Issues were also raised concerning the ability of the utilities to develop and implement any new program procedures and processes needed to rebate a new technology in light of the protracted transition period between utility and staff/third party management of EE programs, and the utilities' resultant loss of EE program personnel. Other members of the Committee believed that solar hot water is a viable technology that should be funded and that payback from replacing electric hot water heaters would be achieved in 8 to 12 years. Moreover, the DCA Green Homes Office proposed to manage a $500,000 solar hot water pilot program specifically for low income homes currently using electric water heating, which could be integrated with its Zero Energy Homes initiative.

The full Clean Energy Council discussed this issue further at its June 6, 2006 meeting. The Council, like the Committee, was unable to reach a consensus regarding funding a solar hot water heating program. A small majority of the Council members recommended that no funding for solar hot water heating be included in the final 2006 budgets. They proposed that additional research be conducted regarding the cost effectiveness of the proposed program and that the proposal be revisited when considering 2007 programs and budgets. The remaining members supported funding the pilot proposed by DCA.

Staff recommends that Solar Hot Water not be funded until adequate data can be obtained that clearly establishes whether this is a cost-effective technology. Such data should also indicate the appropriate market to address with program funds, market barriers to be overcome, and clearly define program objectives.

Energy Conservation Kits
In 2005, the Board approved the implementation of a new program that would offer energy conservation kits to customers at a subsidized cost. These kits contain items such as, weatherstripping and low-flow showerheads. This program was one of the initiatives aimed at helping New Jersey consumers mitigate heating costs, which were especially high during the winter of 2006, due to high oil prices. Availability of the kits was advertised in early 2006 and they were distributed to customers soon after. The Council proposed a 2006 budget of $487,000 for this initiative.

Staff supports the Council's recommendation that this program be continued. However, Staff recommends a higher funding level than that proposed by the Council. The kits are a low-cost, effective way for customers to address some of the heat loss in their homes. The kits can also be used as an education tool if combined with workshops to teach customers how to install the kit contents and how to change their behavior to reduce energy usage. Wide disbursement of the kits also serves to increase public awareness of the CEP goals in general and residential EE programs in particular. A portion of the $487,000 budget proposed by the Council is to pay for kits purchased in 2005, because the 2005 program was not actually initiated until February, 2006. Staff expects the 2006 Program to be launched in the fall. Additional funding in the amount of $120,000 is therefore necessary to accommodate both expenditures for last winter's kits and the funding for the launch of the 2006 program this fall. Staff recommends that the additional $120,000 be taken from the Energy Star Change-A-Light budget.

Staff does not believe that this transfer would materially impact the Change-A-Light program. Because of a lack of staffing within the utilities currently operating Change-A-Light, the utilities current inability to extend or expand contracts, and the delays experienced in hiring Market Managers, the Change-A-Light program is projected to be scaled down from a rebate program to a more intensive outreach and educational campaign. This will allow for the additional funds in the Change-A-Light budget to be used for energy kits.

State Technology Advancement Collaborative (STAC) (Residential Air Conditioning Study)

The 2005 budget included funding for a recently completed STAC grant to support research related to cooling equipment installation practices. The EE Committee and the Council recommended transferring remaining funding for the STAC grant necessary for completion of the project ($85,000) from the Energy Efficiency budget to the Evaluation and Related Research budget. Staff also believes that it is appropriate for the research funds for this project to be moved to the Evaluation budget to pay the outstanding balance.

Low-Income Program

The Board's Low-Income Program provides for the installation of various energy conservation measures at no cost to income-qualified customers. The program has three components: 1) Comfort Partners; 2) the DCA's Weatherization Assistance Program (WAP), in partnership with the utilities' Comfort Partners Program, and; 3) the Weatherization, Rehabilitation and Asset Preservation (WRAP) Pilot and Solicitation.

The Comfort Partners program will continue to be managed by the utilities, which issued a request for proposal in 2005 to hire program delivery contractors and to increase program delivery capabilities. The new contractors are now in place and are preparing to increase production. The program goal is to increase the number of homes treated from 6,403 in 2005 to 7,530 in 2006.

In 2005, the utilities, DCA and the OCE reached an agreement to form a partnership that will result in the consistent delivery of the utilities' Comfort Partners Program and DCA's WAP. Both programs will deliver the same program energy measures (e.g. compact fluorescent lights) and will coordinate on the delivery of these benefits to eliminate program overlap. The combined program was also expanded to include funding for heating system replacement. In addition, the partnership requires coordination of all energy assistance programs to maximize their benefits and cost effectiveness in the delivery of services to low income families. This includes linking the energy assistance provided by the Universal Service Fund (USF) and the Low Income Heating and Energy Assistance Program (LIHEAP) with the energy efficiency provided through Comfort Partners and WAP.

The EE Committee proposed budget also includes $200,000 for the WRAP Program. The purpose of this program is to develop innovative delivery systems that combine energy efficiency and housing renovation programs to increase and preserve environmental quality for low-income households.

The proposed combined budget for the Low-Income Program consists of three funding sources: $25.255 million in CEP funds, $2 million in funds that were appropriated to the Comfort Partners Program in recently enacted legislation, and $50,000 for training implementation contractors that has been tentatively allocated to the Board (subject to finalization) from litigation settlement proceeds arising out of consumer protection actions brought by the Division of Consumer Affairs against certain gasoline retailers.

The EE Committee proposed budget increases for this program of approximately $2 million over 2005 levels to $27.305 million and increases for the DCA component from $3.375[7] million to $4.375 million. However, Staff recommends funding the partnership with the DCA WAP at a lower level than the Council's recommendation. According to DCA, out of $3.725 million budgeted for DCA WAP in 2005, approximately $700,000 has been spent and approximately $700,000 has been obligated to date. No background information to support the need for

[7] The actual 2005 budget for the DCA WAP was $3.725 million, not $3.375 million, as indicated in the Council's recommendation. Staff assumes this discrepancy to have been caused by a typographical error.

additional funding was initially provided to Staff or the EE Committee, and the recent information provided by DCA on the need for additional funding was incomplete and did not appear to support the requested budget of over $4 million for 2006. Staff therefore recommends that the DCA WAP continue to be funded at its 2005 level of $3.725 million, which would incorporate the funds spent by DCA in 2006. Staff believes that this amount is sufficient to allow DCA to carry out the policy goals of the Board on a going forward basis.

Staff also disagrees with the Council's recommendations regarding Comfort Partners. Staff recommends funding the Comfort Partners Program at a level of $23.380 million for 2006, an increase of $2.105 million over 2005 funding levels. This amount includes $2 million in recently appropriated funding for Comfort Partners and the aforementioned $50,000 tentatively from the Division of Consumer Affairs.

Staff further recommends that the WRAP Program be funded at $200,000 for 2006, consistent with the recommendation of the EE Committee. Staff believes that this would provide sufficient funding for 2006, given the timing of the Board's approval of the budget. Staff also recommends that the additional $300,000 that the Board approved for this project by Order dated April 17, 2006, Docket Numbers EO06030239 and EO06030240, should be allocated for the 2007 budget.

Commercial & Industrial (C&I) Construction Program
The C&I Construction Program provides rebates and other incentives to commercial and industrial customers that install high efficiency equipment in existing buildings (retrofit) or design and build energy efficient buildings. The EE Committee recommended maintaining the basic structure of the program, with certain modifications discussed below.

The EE Committee recommended specific modifications to the prescriptive rebates in this program set forth in the memorandum to the Council. Rather than rebating the use of High Intensity Discharge (e.g. mercury vapor, metal halide or high pressure sodium) lighting fixtures, the Committee recommended that rebates be provided for more efficient T-5 and T-8 fluorescent fixtures (high efficiency fluorescent lighting that varies in size and output). The Committee also proposed eliminating existing height restrictions and expanding the range of wattages for which rebates are paid. The Committee further recommended moving air compressors from a custom analysis of rebate eligibility based on each installation to a prescriptive or predetermined rebate amount. Detailed proposals regarding these two proposed program changes were reviewed by the Council.

Summit Blue also recommended a number of additional changes to the C&I Construction Program. These changes included reducing or eliminating rebates for certain lighting measures and motors, the usage of which has become standard industry practice by installers of these technologies. These and other recommendations will be considered further over the next few months and discussed as part of the development of 2007 programs and budgets in the fall.

The C&I Construction Program has successfully facilitated the installation of energy efficient measures in commercial and industrial facilities, including schools and government buildings, around New Jersey. Staff therefore concurs with the Council's recommendation that this program continue. Staff also agrees that prescriptive rebates for lighting fixtures should be modified, because T-5 and T-8 fluorescent lights are more efficient and have lower lumen depreciation rates than High Intensity Discharge Lighting, and their use will increase the energy savings achieved by the program. Staff notes that Summit Blue supported the Council's recommendation to remove the height restriction for high bay fixtures, and Staff therefore agrees with this change. Staff also further agrees with the specific changes to the prescriptive rebates, however the C&I subcommittee also recommended that the program manager must receive proof that the financial incentive provided does not exceed 50 percent of the fixture cost to the customer, based on the customer's invoice. This recommendation was submitted to the EE Committee but was not included in their recommendations to the Council. Staff also recommends approval of this change. Staff further recommends moving the air compressor rebate from the custom to the prescriptive incentive structure, because enough data exists for development of a prescriptive rebate. Staff notes that this decision is supported by an extensive report written for the utilities' Standing Technical Committee by Aspen System Corp., dated June 20, 2005, which analyzed the existing data and recommended a rebate structure based on that data. This modification of the rebate structure should help reduce implementation costs without compromising the effectiveness of the program.

Combined Heat and Power (CHP) Program
The CHP program provides rebates to customers that install eligible CHP systems. CHP systems make use of waste heat, thereby improving the efficiency of fuel use. They typically produce fewer emissions than grid connected electric generators. Solicitations for CHP projects were issued in 2004 and 2005. The projects awarded funding in these years are expected to be completed in 2006 and 2007, with rebates payable upon completion. The EE Committee's proposed budget for this program, $6.681 million, will cover payments for previously committed projects completed in 2006. A solicitation for additional CHP projects was released earlier this year.

Staff supports CHP because it can increase electric reliability during hot summer months by providing alternate power and energy to relieve stress on the electrical grid. The program offering requires minimum system efficiency and emission levels that meet NJDEP State-of-the-Art (SOTA) requirements or better. This insures that the CHP projects have higher efficiencies and lower emissions (including of carbon dioxide, a greenhouse gas) than the average marginal electric rates within PJM, as supplied by the local distribution system through traditional power plants and transmission. Staff has reviewed the proposed budget and believes it is adequate to address the number of projects previously awarded that are anticipated to be completed and rebated in 2006. Staff therefore recommends that the Board approve the budget as proposed. Staff further recommends that the conclusions of Summit Blue regarding this program be discussed in the near future to determine if program changes should be implemented in the 2007 program.

Cool Cities Program
The Cool Cities Program is managed by NJDEP pursuant to a Memorandum of Understanding with the Board. The program funds tree planting in urban environments aimed at reducing the "heat island" effect encountered in such environments. The proposed budget, $4 million, is equal to the 2005 budget for this program. NJDEP initially requested that the EE Committee support $5 million for this initiative. However, while it can be documented that trees aid energy conservation, Staff does not agree with the increase of $1 million in additional funding. In Staff's view, there are many other energy efficiency programs competing for funds that have a more direct impact on energy savings. Staff therefore recommends that the Cool Cities funding should remain constant at the 2005 level of $4 million.

Special Studies and Pay for Performance Program
The EE Committee's proposed 2005 budget included funding for Special Studies and a proposed Pay-for-Performance Program. The Board recently issued a request for proposals (RFP) aimed at electric utilities for projects that promote distributed energy resources (DER) including energy efficiency, load management generation, as opposed to large centralized power plants. The proposed Special Studies line item in the budget, which was originally intended to fund an analysis of new technologies, includes $1 million for this RFP, This was done as part of a Staff initiated collaborative STAC project for which we are using CEP funds to

match federal funds. Staff agrees with the EE Committee's recommendation, but recommends that the Special Studies program be listed under Other EE Programs rather than the C&I Programs, as reflected in Table 3.

The EE Committee's proposed budget does not include funding for a Pay-for-Performance pilot program in 2006. Such a pilot would involve the use of incentive payments tied to energy savings achieved through the use of energy efficient appliances. Staff has not been supportive of this concept because it is more cost-effective to incentivize the development of technologies and efficiency measures rather than paying based on the value of energy savings.

The Energy Efficiency Committee also discussed several new components to the C&I program as follows:

Treasury HVAC Program
Board Staff indicated to the Committee that the State has several pending HVAC projects that require funding in excess of existing program rebates and recommended that a portion of the C&I budget be set aside for State facilities. The projects are to replace the old, inefficient HVAC equipment at three state facilities. The full replacement cost of the old HVAC systems would be funded for these projects. The Council, via an email vote, did not support the use of CEP funds to support full HVAC replacements because, in the Council's opinion, this project was not consistent with CEP guidelines for C&I project rebates. Specifically, the Council opined that the funds should be used to fund the incremental energy savings of the higher efficiency HVAC equipment rather than the full project cost to install the upgraded HVAC equipment.

Notwithstanding the foregoing, Staff recommends budgeting for the Treasury HVAC Program in the amount of $4.5 million. This recommendation is based on a request by Treasury to enhance State buildings' energy savings capability. This will result in energy savings for taxpayers over the long term, and will also reduce the high maintenance cost of the older HVAC units. This funding would be over and above any energy efficiency rebate and should fund the entire cost of replacing old HVAC systems. Staff recommends an MOA be developed between Treasury and the BPU that will submitted to the Board for approval to implement and administer this program.

"Direct Install" Pilot Program
The EE Committee is also exploring the development of a "direct install" program component to be implemented by the new Market Manager. The program would target small commercial customers and would include contractors that would install energy efficiency measures. Under the proposed pilot, CEP would subsidize the cost of those measures. The EE Committee will continue to develop program details for recommendation, and Board Staff will set out these recommendations in a program compliance filing to be approved by the Board. The proposed C&I Retrofit budget includes sufficient funding for such a pilot, to be implemented by the selected Market Manager.

Staff supports the Direct Install Component of the C&I Program because it targets small commercial customers that do not have the energy efficiency expertise or personnel of larger companies. Such customers make up an underserved market that OCE wants to reach. Program details and budgets will be provided as part of a program compliance filing to be approved by the Board.

HMFA Affordable Housing Energy Retrofit Pilot Program
The Affordable Housing Energy Retrofit program proposed by the New Jersey Housing and Mortgage Finance Agency (HMFA) is designed to help property managers assess, plan for, and finance improvements to their multi-family affordable housing properties. The program would

offer technical assistance and rebates to property owners and would leverage existing HMFA funding.

While the EE Committee supported the proposed program in concept because it addresses an underserved market, concerns were raised regarding the creation of a new program manager (HMFA) when an existing program management structure could be utilized. Alternatively, the Committee believed the program's objectives could be achieved more efficiently within the existing C&I Program structure. The EE Committee recommended that HMFA work with existing program managers (utilities) to identify areas where the current program fails to meet the needs of this market segment, and develop changes to the program to eliminate any barriers that are identified. This could include modifications to the current incentive structure if existing rebate levels are not sufficient to overcome barriers to participation. The proposed C&I Retrofit budget includes sufficient funding to support this new program element and includes $200,000 for energy audits for HMFA projects. Details of the program and budget will be submitted as part of the program compliance filing to be approved by the Board.

HMFA met with Staff before proposing this Program to the EE Committee. Staff did not support the concept of paying HMFA to manage a program that could be included within the context of existing programs. Staff believes it is appropriate to address this underserved market within the context of the C&I Program, and to offer technical assistance and rebates within this structure. Staff also supports a program manager working with HMFA to identify and develop changes to the program to address market barriers for this market segment. Therefore, Staff agrees with the Council, has reviewed the budget and believes it is adequate to support these recommendations.

Municipal Audits Pilot Program
OCE Staff has been contacted by several municipalities that lack the resources needed to participate in the existing C&I program seeking financial support for energy audits. Staff recommends the development of a municipal audit pilot program. The EE Committee supported this recommendation. Proposed program details will be developed as part of the program compliance filing to be approved by the Board. The proposed C&I Retrofit budget incorporates sufficient funding to include this new program element.

Operations and Maintenance (O&M) Scoping Study
New Jersey Institute of Technology (NJIT) proposed a study to determine the feasibility of, and the potential energy savings from, a statewide operations and maintenance program for commercial buildings. The result of the study will be a set of recommendations for implementing an energy efficient operations and maintenance program. The EE Committee recommended that the proposed scoping study be funded in 2006. However, the Committee also believed that the funding for feasibility studies is more appropriately included in the Evaluation and Research budget.

Staff supports the recommendation of the EE Committee to include $200,000 in the Evaluation and Related Research budget for the O&M Scoping Study proposed by NJIT. The purpose of the study is to provide a set of recommendations regarding the potential for an energy efficient operations and maintenance program for the commercial sector. The study will provide the OCE and Council with information on the energy savings benefits of proper operations and maintenance practices, such as changing air filters, proper balancing of HVAC systems, and temperature control.

NJ Pre-rinse Spray Valve Program
A program was proposed that would subsidize the cost of the installation of pre-rinse spray valves that use less hot water, and less energy, in restaurants. The EE Committee believed this

proposal should be considered in the context of a broader program element aimed at the food service industry, and did not support funding it at this time.

The Pre-Rinse Spray Valve program is similarly not supported by Staff at this time because new federal standards for spray valves require the manufacture of efficient units, and Staff believes it is inappropriate to rebate a federally mandated technology.

Home Performance with Energy Star Multi-Family Pilot Program
DCA proposed a new component of the Home Performance with Energy Star Program that would address multi-family housing. The EE Committee recommended that the proposed pilot program not be funded at this time, but be considered for funding in 2007, because it was not submitted in time and was lacking important information for consideration by the EE Committee. The Committee recommended that additional data was needed to determine the cost effectiveness and the objectives of the pilot program.

Staff agrees with the Committee's recommendation not to support the proposal because it was not submitted in time and was lacking important information for consideration.

As discussed above, the Council was unable to reach a consensus regarding the funding of a solar hot water heating pilot program. The Council unanimously recommended approval of all of the other recommendations submitted by the EE Committee discussed above.

4. Proposed Spending on Specific Renewable Energy Programs

The RE Committee and OCE Staff reviewed all of the existing programs and proposed a number of changes thereto within the context of the various RE market assessments. This was done in order to achieve the RE goals and objectives established and approved by the Board for the RE program. No new program proposals were submitted. The Navigant and Aspen RE assessments both recommended maintaining the current specific customer on-site and RE power plant programs in order to achieve the Board's RE goals and objectives. The 2005 program budgets for each of the specific RE programs, the overall RE budget, as well as the actual 2005 expenditures, were reviewed and evaluated to determine if the current program funding could achieve these same goals and objectives.

The following summarizes the recommendations of the RE Committee, which were discussed by the Clean Energy Council and reviewed by Board Staff, and the overall recommendations of OCE Staff to the Board.

Customer On-site Renewable Energy (CORE)
The CORE Program provides rebates to customers that install RE systems to meet the electric loads of their homes or businesses. The CORE Program has achieved very significant success in the past two years. To continue this success the RE Committee recommended a significant CORE budget increase, from $85.7 million in 2005 to $147.5 million in 2006. The Committee also recommended that $10 million of the CORE budget be reserved for non-photovoltaic (PV) projects so that other technologies are given an opportunity to develop. The Committee noted that even with this significant budget increase, a large number of applications will remain in queue unless many previously approved projects are terminated or additional funds are allocated to the program, particularly those in CORE budget category for private sector projects greater than 10 kW.

The HMFA proposed that $2 million of the CORE Program budget be set aside for solar PV projects in multi-family affordable housing projects managed by HMFA. The program, named SUNLIT, will make it logistically and financially possible to install solar PV on multi-family affordable housing developments. SUNLIT will allow CORE rebates to be used to benefit low income tenants and affordable housing projects. The SUNLIT Program combines funds from the Low Income Tax Credit subsidy program administered by HMFA, HMFA low interest debt financing, and Board CORE rebates. The RE Committee supported this proposal. Staff recommends that a line item be established for this program, since the multi-family projects require a longer rebate commitment length than typical CORE projects. These projects would not occur without a longer commitment length and the certainty of a longer term budget commitment.

CORE Program rebates were lowered in February 2006 by Order dated December 21, 2005 and again in March of 2006 by Order dated February 13, 2006. BPU staff has also announced that additional rebate reductions would take effect in September of 2006.

The RE Committee has also formed a subcommittee to review opportunities to transition from a rebate-based RE market to a more market-based approach that would presumably rely on Renewable Energy Credits (RECs) and Solar Renewable Energy Certificates (SRECs) as an alternative to rebates. Staff supports the Committee's desire to shift the State's RE market development policy from an emphasis on subsidizing installed capacity to one rewarding RE production. This subcommittee held its first meeting on May 30, 2006.

The Council discussed the budget and program recommendations of the RE Committee and proposed a number of changes to the Committee's proposal. First, based on Staff's recommendation, the Council concurred that the $10 million reserved for non-solar CORE projects be made available for solar projects. Rather than reserving funds for non-solar CORE projects, Staff recommends that the first $10 million in non-solar CORE projects should move to the head of the queue. A change in queue practice, as opposed to a line item earmark, would obviate the need to reserve funds for non-solar CORE projects that may or may not develop at a time when solar projects are waiting in the queue for additional funding to become available to receive rebate approval. Staff similarly recommends a change in queue practice for CORE project approvals allowing the first $10 million in complete non-solar applications to receive approvals. After $10 million in applications for non-solar projects have been approved, any subsequent applications would be placed in the appropriate queue.

The other modification to the CORE Program proposed by Staff, with which the Council concurred, concerns the Manufacturing Incentive Program discussed below. While the Council supports the inclusion of a program that promotes the attraction of a RE manufacturing facility in New Jersey, the Council agreed with Staff's position that it is highly unlikely that a facility will be built and incentives paid in 2006. Therefore, the Council agreed with Staff's recommendation that the $4 million proposed for the Manufacturing Incentive Program be reallocated to the CORE Program. The Council further supported Staff's recommendation that the Board indicate in its Order approving 2006 programs and budgets that it will reserve $4 million of 2007 funding for a Manufacturing Incentive Program. Reserving the manufacturing incentive funds for the future will allow Staff to further develop and market the program in 2006, as discussed below, while enabling the immediate satisfaction of additional demand for these technologies through the CORE program

The RE Committee was unable to reach a consensus recommendation regarding allocation of the additional CORE Program funding to the various CORE budget categories. Therefore, Staff proposed an allocation which was discussed by the Council. It is Staff's view that the CORE program budget and allocation will aid in achieving the Board's approved goal for the RE program to install 90 MW of PV in New Jersey by the end of 2008 as set forth in the Order dated May 7, 2004, Docket Nos. EX03110946 and EX04040276.

Table 5 shows the resulting amount in each budget category as a percentage of the total CORE Program budget, as initially set by the Board and as revised by the April reallocation and the reallocation proposed herein. The proposed allocation of additional funds to the private sector CORE budget categories does not reduce the absolute amount of funding devoted to public sector projects. Staff recommends that reallocated funds be directed to the CORE budget sectors that exhibit the greatest demand for rebates, as demonstrated by the project queues. A consensus within the Council supported Staff's proposed allocation as set out in Table 5.

In addition, Staff recommends two changes to the program requirements of the CORE program. The CORE Program provides customers with rebates that cover a significant portion of the cost of a photovoltaic system. To ensure that the anticipated benefits generated by these systems are realized by the citizens of New Jersey, Staff seeks to impose a requirement, effective immediately, that every customer approved for a CORE rebate commitment, as a condition of approval, certify that if he or she sells or otherwise transfers the solar panels for which rebates were paid to any party for use outside of New Jersey, the customer will refund a pro-rata share of the rebate received to the Board. This obligation would last for 10 years, beginning on the date of receipt of the CORE rebate.

Staff also recommends that the Board clarify its prior Order, issued on February 13, 2006, which directed that CORE rebates for residential single family homes be limited to the first 10kW of project capacity. This limitation is designed to address the overwhelming volume of applications for CORE rebates received by OCE, which would potentially have drained the program's entire annual budget. This program modification was intended by Staff and the Board to apply to all CORE applicants or potential CORE applicants not in possession of a CORE rebate commitment letter from OCE as of February 13, 2006. This is fully consistent with long established and publicized program guidelines, which clearly state that the CORE program may be modified or withdrawn without notice, and that the terms and conditions of a rebate are those set forth by OCE Staff in the rebate commitment letter. To the extent that the February 13 Order is ambiguous with respect to the effective date of this modification (although Staff does not believe it is), Staff seeks clarification from the Board that any CORE rebate applicant, whether in queue or not, who had not received a commitment from the OCE to provide a rebate at a certain level as of February 13, 2006, is subject to the above referenced rebate limitation.

CleanPower Choice

The CleanPower Choice Program is a program that allows customers to voluntarily support the development of an RE industry by agreeing to pay slightly higher rates to purchase renewably generated electricity. The Board approved budgets for changes to the electric utilities Information Technology (IT) systems needed to implement the Clean Power Choice Program in 2005. By Order dated August 19, 2005, Docket Number EO05010001, the Board approved budgets for Public Service Electric & Gas (PSE&G) and Jersey Central Power & Light (JCP&L). By Order dated April 6, 2006, Docket Number EO05010001, the Board approved the budgets for Atlantic City Electric (ACE) and Rockland Electric Company (RECO). JCP&L and PSE&G completed this work in 2005. ACE and RECO started this work in 2005 and completed it in 2006. The proposed budget for 2006 will cover the costs incurred by ACE and RECO in 2006 to complete the Board approved IT system modifications. The budget also includes funding to cover utility expenses related to bill inserts that will be used to promote this program. Staff recommends that this program be funded in the amount of $1.516 million to build demand for renewable energy in New Jersey. This program is consistent with the recommendation by Navigant, and will aid in increasing the demand and value for RECs and SRECs.

Economic Development Authority (EDA) Programs

EDA currently administers several RE programs on behalf of the Office of Clean Energy, pursuant to a Memorandum of Agreement (MOA) executed with the Board. OCE Staff and the RE Committee make the following recommendations with respect to these programs.

Renewable Energy Project Grants and Financing Program
This program provides grants of up to 20 percent and financing to encourage the development of large scale RE facilities, greater than 1 mW, located in New Jersey. The program is designed to provide seed grants and access to capital to make renewable powered electricity cost competitive with conventional power plants. The RE Committee recommended continuation of this program.

The NJ BPU Grid Supply Program was renamed the RE Advanced Power Plant Program and subsequently renamed the Renewable Energy Project Grants and Financing Program. Under this program, in 2002, the Board released an RFP for large, grid-connected RE projects. Two projects that were awarded funding under this solicitation are continuing development or are completed but will receive incentive payments in 2006: the Atlantic City Utilities Authority wind project and the Burlington County landfill gas project.

In accordance with the MOA between BPU and EDA, the OCE has determined that any incentives paid to these projects will be paid by EDA out of the Renewable Energy Project Grants and Financing Program budget discussed below. The proposed budget for the Renewable Energy Grants and Financing Program includes incentives for the NJ BPU Grid Program projects and new commitments that are expected to be paid in 2006. Staff recommends that this program be fully supported to enable fulfillment of the two existing commitments and further development of the under-served market for large utility-scale projects in order to meet the goals for renewable energy established by the Board.

Manufacturing Incentive Program
The OCE has been working with EDA to develop specific program elements that would be used to attract a manufacturer of RE systems to New Jersey. A specific program proposal is still under development through the Governor's Office for Economic Development and with other State agencies, including EDA and Department of Commerce. The RE Committee believes that the attraction of an RE manufacturer is an important component of the State's RE goals, and recommended that $4 million be reserved for this program. As discussed above, the Staff recommends that the 2006 budget for this program be reallocated to the CORE Program and that the Board reserve $4 million in 2007 funding for this program.

Public Entity Financing/ Clean Energy Financing for Businesses
At the recommendation of both the RE Committee and the EDA, these programs are being eliminated for lack of activity due to more attractive private sector alternatives. However, $400,000 was included in the budget for the business financing program to cover the expenses associated with the program's first and only commitment. By Order dated April 12, 2006 in a non-docketed matter, the Board awarded project financing to Ferriera Construction Company in the amount of $375,819.50. The Clean Energy Project Financing for Businesses program is proposing a budget of $400,000 to cover the financing of EE and RE upgrades at Ferriera Construction and the loan management costs at the EDA. Staff recommends maintaining the line item and sufficient budget to meet its sole commitment while closing out the program.

Renewable Energy Business Venture Assistance Program

The OCE has been working with EDA to provide funding for RE business development in New Jersey. The program offers straight grants and recoverable grants to developing RE businesses with innovative technologies, approaches or services. The recoverable grants are designed to be repaid as the businesses become profitable. The RE Committee recommended continuation of this program, which fosters development of RE business infrastructure development in New Jersey. The proposed budget covers expenses for previously approved projects and projects under review that are expected to receive grant payments in 2006. Staff recommends that this program be continued in light of the lack of federal support for applied research and development activities in RE markets.

Table 4: Final 2006 Renewable Energy Program Budget, sets out the proposed 2006 program budgets recommended by the RE Committee and endorsed by the Clean Energy Council, as discussed above. Staff recommends approval of the RE budget and programs to enable fulfillment of the goals and objectives established by the Board.

5. *Proposed Spending on Administration*

Table 6: Final 2006 Administrative Budget, summarizes the proposed 2006 Administration budget. The proposed budget includes funding for OCE administrative and overhead costs, evaluation and related research activities, and the marketing and communications effort managed by the OCE. Overall, the OCE total administrative cost for 2005 was $3.654 million, which is about 3 percent of the total 2005 expenditures. This may be compared with the utilities' total administrative costs (minus the Low Income program) in the same categories for 2003 which was $24,298 million, or approximately 30 percent, of the total 2003 expenditures.

Administration and Overhead
The budget for Administration and Overhead covers OCE staff costs of full time employees and the overhead costs for OCE, special studies and memberships/dues. The special studies budget includes funding for sponsoring an affordable housing conference, for development of appliance standards rules and technical support. The membership/dues budget includes funding for annual memberships for the Northeast Energy Efficiency Partnership (NEEP), the Consortium for Energy Efficiency (CEE), and the Clean Energy State Alliance (CESA) for technical support for the C&I Program.

The EE Committee supported funding and recommended that NEEP, CEE and the Affordable Home Performance Conference be funded under the Administration budget. The EE Committee also recommended that the Administration budget be used to fund the implementation of appliance standards rules and the procurement of technical support for lighting and other efficiency measures. The Administration budget proposed includes funding in the amount of $615,000 for all these initiatives. These initiatives provide expertise for improvement of the cost effectiveness of the Program and to delivery of the Program in a coordinated manner within the region and nationally.

Evaluation and Related Research
The evaluation and related research budget includes funding for a number of evaluation related activities including the following:

- Rutgers Center for Energy, Economic and Environmental Policy: evaluation support. This is a continuation of an existing contract to provide overall evaluation management.
- Energy Efficiency Market Assessment: Completion of Summit Blue Consulting's evaluation. Summit Blue was selected and approved by the Board through an RFP.
- Impact Evaluation: The Board approved the release of an RFP to engage a contractor to perform an Impact Evaluation which is expected to commence in 2006.

- Renewable Energy Market Assessment: The Board is reviewing proposals received from contractors in response to an RFP to perform an assessment of the renewable energy marketplace which is expected to commence in 2006.
- Funding Reconciliation: The Board approved the release of an RFP to engage a contractor to perform a funding reconciliation for the years 2001 through 2005 which is expected to commence in 2006.
- O&M Scoping Study: The budget includes funding for a proposed C&I Scoping Study which would determine the feasibility and viability of a potential new program focused on the energy efficient operation of existing commercial buildings.
- STAC Residential Air Conditioning Study: The memorandum to the Council proposed that the Administrative budget include funding for this research of cooling installation practices in the Administration and Overhead portion.
- Other Studies: The performance of other evaluations that Staff identifies as being necessary during the course of the year, subject to Board approval.

All RFPs have been issued or will be issued consistent with Treasury procurement guidelines and circulars and consistent with Board policy with be submitted to the Board for review and approval.

Marketing and Communications
The Marketing and Communications budget supports an integrated outreach program that includes advertising, public relations, event planning and market research. The CEP Outreach & Education Program is designed to build the CEP brand, solidify its position as New Jersey's Energy Partner, drive awareness and participation in its many valuable programs and services, and build support for its mission and the value CEP brings to New Jersey citizens, businesses, and municipal/public institutions.

Highlights of 2006 Outreach & Education Program include:

- 2006 New Jersey Clean Energy Conference & Leadership Awards will provide an expanded program for 600 attendees. The business leaders from New Jersey's top 100 businesses have been invited to this event. The Clean Energy Leadership Awards and media campaign work to promote CEP to the New Jersey business community and build public recognition of outstanding projects and accomplishments.

- Summer/Winter Energy Savings Campaigns, first launched in 2005, provide simple tips to help consumers reduce energy use, lower costs, and take advantage of seasonal rebates and promotions during seasons of peak use. In 2005, the Winter Energy Savings Tips campaign generated 23,010 hits to the advertised web page.

- CleanPower Choice Campaign launched in the fall of 2005, continues to build public awareness about the Program and help drive enrollments to help exceed the goal of 10,000 enrollments by December 2006. In April 2006 a Clean Power Coalition was launched to extend our reach and create a united voice in support of CleanPower Choice and the broader goals of CEP.

- A 2006 Public Opinion Survey will poll 2000 residents and 600 businesses to track consumer attitudes about energy issues, awareness of CEP Program and recognition of public education campaigns. The Survey results, when combined with web stats and consumer response data, will help gauge the impact of the CEP activities and provide input for future communications.

- CEP Website - www.NJCleanEnergy.com - The CEP website has seen significant development as the primary means to market CEP Programs and to communicate to New Jersey business and residential ratepayers. Redesign and maintenance of the website in 2006 will ensure ease of access to information on CEP incentives, clean energy initiatives and progress to date. Development of a more integrated platform will also continue to help facilitate cross marketing of programs and present a stronger, more unified CEP Brand.

- The Outreach & Education Grants Program continues to provide an important means to engage community based organizations and institutions in the work of CEP. The 2006 budget includes grants funding to develop and launch a statewide K-12 Clean Energy Education Program as well as a municipal outreach program to ensure broad public reach and benefit for the NJCEP programs.

The Council reviewed the programs and budgets discussed above. Two individuals on the Council abstained from voting on the proposed Administrative programs and budgets: one abstained to avoid any appearance of conflict since he is a member of the Board of CEE which will receive funding if the budgets are approved by the Board; and the other abstained and requested additional information regarding the details of the NEEP sponsorship. The remaining members of the Council unanimously supported the administrative programs discussed above and budgets set out below.

Staff agrees with the Council and recommends provision of $125,000 to sponsor a technical training conference to be presented by Affordable Comfort, Inc. (ACI) in Atlantic City in late January 2007. ACI presents this technical training twice a year for technicians and others involved in improving the efficiency of existing residences, specifically Comfort Partners, Low Income programs and Home Performance with Energy Star. Numerous programs in other states have sponsored the ACI conference recently but this will be a first for New Jersey. In addition, given the increase in the Comfort Partners program both from the CEP funds and the additional Legislative appropriation, it will be an important event to sponsor to assist in expanding the fields of qualified contractors.

Supporting national and regional initiatives allows CEP to leverage efforts in other states and provides for the joint or coordinated delivery of certain programs across the region. These regional and national organizations provide and overall expertise that assists in improving the Program and provides a forum for the exchange of innovative and new programs in which the development implementation costs for these new programs are reduced by spreading such costs among multiple states. Regional efforts provide for consistent program delivery across neighboring states, which helps to transform markets by providing incentives for similar equipment across each state and creating leverage in discussions with manufacturers and distributors that supply products to multiple states. In order to continue the cost effective implementation of New Jersey's CEP it is necessary to actively participate in these regional and national forums. Summit Blue concluded that "The programs are highly leveraged, and take advantage of national and regional Energy Star efforts." Therefore Staff supports funding of several regional initiatives: NEEP, CEE, CESA, and Appliance Standards.

NEEP sponsorship includes expertise in the development and implementation for several regional initiatives, including Energy Star Products, residential high efficiency HVAC, high efficiency commercial unitary HVAC, premium efficiency motors and commercial lighting. NEEP also supports the development of building energy codes and the development of appliance standards.

Staff agrees with the Council and recommends provision of funding for technical assistance from NEEP. However, Staff believes that the $240,000 recommended by the EE Committee is more than is necessary to fund this item, and therefore recommends that $175,000 be budgeted for NEEP.

Staff has supported through all stages of its development, the adoption of minimum efficiency requirements for certain appliances in New Jersey and nationally. Staff initiated the recommendation to the Council which concurred to fund certain aspects of the Appliance Standards Rules to be adopted in New Jersey.

Through an oversight, Staff did not propose including membership in CESA in discussions with the RE Committee or the Council. CESA is a membership organization of states that have clean energy funds. It is a forum for those states to share successes and coordinate policies for the promotion of clean energy markets. CESA sponsorship promotes and advances the development and use of emission free RE and clean low carbon technologies in the member states, and collectively, across the country. Staff therefore recommends that the difference between the $240,000 for NEEP and $175,000 (i.e. $65,000) be included in the budget for this.

Staff recommends provision of $82,000 for technical assistance from CEE. CEE maintains and updates lists of qualifying Energy Star equipment that are utilized by the New Jersey programs, performs annual surveys to determine Energy Star product market penetration rates and coordinates regional evaluation activities. CEE sponsorship allows New Jersey access to such information at a cost substantially below what it would cost New Jersey to develop such information itself, since the cost is being spread across multiple state participants.

Staff agrees with the Council and recommends provision of $68,000 for technical assistance from an entity with expertise in lighting, particularly in applications of newer technology and would assist OCE in advanced technical issues. New technology is developing rapidly and the OCE needs access to experts who can provide specialized information and expertise to help fine-tune existing programs.

The memorandum regarding the Administrative budgets considered by the Council inadvertently included funding for the STAC Residential Air Conditioning Study in the Administration and Overhead portion of the overall Administrative budget, instead of in the Evaluation and Related Research portion of the budget as recommended by the EE Committee. The OCE recommends that this discrepancy be corrected by modifying the Administrative budgets proposed by the Council. Specifically, Staff recommends transferring the funding for the STAC Residential Air Conditioning Study to the Evaluation and Related Research budget, as recommended by the EE Committee. This modification reduces the Administration and Overhead portion of the budget by $85,000 or from $2.150 million to $2.065 million, and increases the Evaluation and Related Research budget by $85,000 or from $2.150 million to $2.235 million. This results in no net change to the Administrative budget.

The proposed administrative budget also contains funding for maintenance of the RE website. Projections for 2006 indicate that the 2005 funding level of $50,000 (allocated to the CORE budget) will be inadequate for 2006 expenses. JCP&L, which maintains the website, has projected that, due to increased website activity this year, additional funds are needed, and estimates $100,000 for the year. Staff proposes that $100,000 be allocated for 2006 and that the budget for the RE website maintenance come out of the Marketing & Outreach, where all other website maintenance is budgeted at $203,000.

Table 1: 2006 Funding

	(all $000)	2001	2002	2003	2004	2005	2006
1	Fiscal Agent Year End Cash Balance					$93,000	$120,100
2	EDA Year End Cash Balance					$20,300	$17,805
3	Total Year End Cash Balances = Lines 1 + 2					$113,300	$137,905
4	Additional Payments to Fiscal Agent for Nov. and Dec.2005 paid in 2006					$0	$3,514
5	2005 ACP/SACP Payments paid to Fiscal Agent in 2006					$0	$86
6	Utility Carry Over (2001 - 2003 only)	$0	$57,441	$76,854	$103,271		
7	**Total Carry Over = Lines 3 + 4 + 5 + 6**	**$0**	**$57,441**	**$76,854**	**$103,271**	**$113,300**	**$141,505**
8	New Funding from Board Order	$114,999	$119,326	$124,126	$124,126	$140,000	$165,000
9	Fiscal Agent Credits					($4,700)	($2,391)
10	New Funding Sub-Total (Lines 8 + 9)	**$114,999**	**$119,326**	**$124,126**	**$124,126**	**$135,300**	**$162,609**
11	Estimated Interest Payment					$0	$5,000
12	**Total New Funding = Lines 10 + 11**	**$114,999**	**$119,326**	**$124,126**	**$124,126**	**$135,300**	**$167,609**
13	**Total 2006 Funding = Lines 7 + 12**	**$114,999**	**$176,767**	**$200,980**	**$227,397**	**$248,600**	**$309,114**

1 For 2006 = cash balance in NJCEP Trust Fund held by Treasury as of December 31, 2005.
For 2005, estimates of the year end cash balance in the Trust Fund were made in October 2004 and used for developing budgets.
Trust Fund was created in 2004. There are no year end balances for years prior to 2004.

2 For 2006 = cash balance in NJ Economic Development Authority (EDA) NJCEP account as of December 31, 2005.
For 2005, estimates of the EDA year end cash balance were made in October 2004 and used for developing budgets.

3 Total Year End Cash Balance = Trust Fund year end balance + EDA year end balance.

4 For 2006, = payments made by the utilities to the Trust Fund for the months of November and December 2005 which were deposited in January and February 2006.
For 2005, estimates of November and December payments were included in the estimate of the Trust Fund year end balance.

5 Alternative Compliance Payments and Solar Alternative Compliance Payments made pursuant to the Board's RPS rules for 2005 which were deposited into the Trust Fund in 2006. No such payments were made in 2005.

6 Prior to the establishment of the Trust Fund in 2004, carry over was calculated by deducting utility expenses from Board ordered funding level.

7 Total Carry Over = Trust Fund balance + EDA balance + additional payments to Fiscal Agent + additional ACP/SACP payments.

8 Board Ordered Funding Levels for 2001-2006, e.g. Board Order dated March 9, 2001, Docket No. EX99050347

9 For 2006, Fiscal Agent Credits = utility credits related to true-up of utility expenses for energy efficiency programs recouped through SBC.
For 2005, = estimate of utility credits related to payments to the fiscal agent prepared in October 2005.

10 New funding Sub-Total = Board ordered funding level for the year plus Fiscal Agent credits.

11 Trust Fund interest payment estimated by Treasury to be deposited into the Fund in July 2006.
EDA interest is credited monthly and included in the year end balance.

12 Total New Funding = Board ordered funding + fiscal agent credit + interest.

13 Total Available Funding = Total New Funding + Total Carry Over.

Table 2: 2006 Funding By Budget Category

(all $000)	2005 Budget (a)	2005 Actual Expenses (b)	2005 Carry Over (c) = (a) - (b)	New 2006 Funding (d)	April 2006 Line Item Transfers (e)	Proposed Line Item Transfers (f)	New 2006 Funding Plus Line Item Transfers (g) = (d)+(e)+(f)	Total 2006 NJCEP Available Funding (h) = (g) + (c)	Funding From NON-NJCEP Sources (i)	Total 2006 Available Funding (j) = (h) + (i)	Committed Expenses (k)	2006 Available Funding Less Committed Expenses (l) = (j)-(k)
Energy Efficiency	$113,750	$85,414	$28,336	$101,700		($1,391)	$100,309	$128,645	$2,050	$130,695	$70,979	$59,716
Renewable Energy	$120,200	$35,525	$84,675	$46,800	$12,813	$26,181	$85,794	$170,469	$0	$170,469	$139,041	$31,428
Administration	$10,175	$3,654	$6,521	$16,500	($12,021)	($1,000)	$3,479	$10,000	$0	$10,000	$0	$10,000
Unallocated Funding			$21,973		($792)	($21,181)	($21,973)	$0		$0		
Anticipated Interest Payment				$5,000		($5,000)	$0	$0		$0		
2005 Year End Fiscal Agent Credits				($2,391)		$2,391	$0	$0		$0		
Total	$244,125	$124,593	$141,505	$167,609	$0	$0	$167,609	$309,114	$2,050	$311,164	$210,020	$101,144

(a) = Board approved 2005 budgets including 2005 Line Item Transfers .
Note: A portion of the available 2005 administration funding and $1 M of the energy efficiency funding was not budgeted.
(b) = Actual 2005 expenses reported to the Board in the 4Q 2005 report.
(c) = 2005 Budget less 2005 Actual Expenses.
Unallocated funding equals Total from column (c) less EE, RE and Administration 2005 Carry Over.
Unallocated funding includes interest payments, SACPs and additional carry over from previous years that was not budgetd or allocated to a specific program.
(d) = New funding approved by the Board by Order dated December 23, 2004, plus anticipated interest payment, less 2005 year end fiscal agent credits. New funding for EE, RE and Admin equals the $165 M set out in the Board's Order.
(e) = Line Item transfers approved by the OCE in April 2006.
(f) = Line Item Transfers authorized by the Board herein.
(g) = New 2006 Funding plus Line Item Transfers
(h) = Total NJCEP 2006 Available Funding equals 2005 Carry Over plus New 2006 Funding plus Line Item Transfers
(i) = $2 M in funding from a legislative appropriation and $50,000 in fines from the Div. of Consumer Affairs were allocated to the Comfort Partners Program.
These are no outstanding commitments against Non-NJCEP funds
(j) = 2005 Carry Over plus New 2006 Funding plus Line Item transfers plus funding from Non-CEP sources.
(k) = Committed expenses as of 12/31/05 reported to the Board in the 4Q 2005 report.
Commitments are paid when projects are completed. For the Residential New Construction Program, program managers estimate 2006 completions based upon conditions in the local economy and housing market. Program managers also estimate commitments that will be completed in 2007. For this program completions are typically estimated to be in the range of 70 to 90% of commitments. For the C&I program, 100% of the commitments are assumed to be completed. For the CORE program, OCE estimates that 90% of the less than 10 kw projects will be completed and 50% of the greater than 10 kw projects will be completed.
Budgets are based on commitments estimated to be completed and paid in 2006.
(l) As noted above, significantly less that 100% of commitments are estimated to be paid in 2006.
Budgets reflect best estimates of 2006 completions.

Table 3: Final 2006 Energy Efficiency Program Budget

Energy Efficiency Programs (All numbers = 000's)		NJBPU Approved 2005 Budget	Actual 2005 Expenses	2005 Carry Over	New 2006 Funding Plus Line Item Transfers	2006 CEP Budgets	Budgets from NON-NJCEP Funding Source	Total	Committed Expenses	2006 Available New Funding
Existing Programs										
Residential EE Programs		(a)	(b)	(c) = (a) - (b)	(d)	(e) = (c) + (d)	(f)	(g) = (e) + (f)	(h)	(i)=(g) - (h)
Residential HVAC - Electric & Gas	1	$15,500	$13,117	$2,383	$12,817	$15,200	$0	$15,200	$0	$15,200
Residential New Construction	2	$22,950	$23,261	($311)	$28,031	$27,720	$0	$27,720	$43,693	-$15,973
ENERGY STAR Products	3	$6,830	$5,973	$857	$8,362	$9,219	$0	$9,219	$0	$9,219
Maintenance		*$835*	*$1,021*	($186)	$1,021	*$835*	*$0*	*$835*	*$0*	$835
Room AC		*$875*	*$396*	$479	$396	*$875*	*$0*	*$875*	*$0*	$875
Change a Light & Other		*$4,050*	*$4,016*	$34	$1,505	*$1,539*	*$0*	*$1,539*	*$0*	$1,539
On-Line Audit		*$870*	*$435*	$435	$435	*$870*	*$0*	*$870*	*$0*	$870
Home Performance with Energy Star		*$200*	*$105*	$95	$5,005	*$5,100*	*$0*	*$5,100*	*$0*	$5,100
Residential Low Income	4	$25,000	$15,467	$9,533	$15,722	$25,255	$2,050	$27,305	$0	$27,305
Comfort Partners		*$21,275*	*$15,467*	$5,808	$15,522	*$21,330*	*$2,050*	*$23,380*	*$0*	$23,380
DCA Weatherization		*$3,725*	*$0*	$3,725	$0	*$3,725*	*$0*	*$3,725*	*$0*	$3,725
Weatherization Rehabilitation and Assistance Preservation (WRAP)		*$0*	*$0*	$0	$200	*$200*	*$0*	*$200*	*$0*	$200
DCA Green Homes	5	$1,600	$0	$1,600	$0	$1,600	$0	$1,600	$0	$1,600
STAC Evaluation	6	$170	$85	$85	($85)	$0	$0	$0	$0	$0
Energy Conservation Kits	7	$0	$0	$0	$607	$607		$607	$0	$607
Sub Total Residential		**$72,050**	**$57,903**	**$14,147**	**$65,454**	**$79,601**	**$2,050**	**$81,651**	**$43,693**	**$37,958**
C&I EE Programs										
Commercial/Industrial Construction	8	$35,450	$24,939	$10,511	$29,033	$39,544	$0	$39,544	$26,219	$13,325
C&I New Construction		*$3,300*	*$3,730*	($430)	$4,241	*$3,811*	*$0*	*$3,811*	*$3,434*	$377
C&I Retrofit		*$20,900*	*$17,347*	$3,553	$21,784	*$25,337*	*$0*	*$25,337*	*$11,587*	$13,750
New School Construction & Retrofit		*$3,500*	*$3,360*	$140	$3,575	*$3,715*	*$0*	*$3,715*	*$3,541*	$174
CHP	9	*$7,750*	*$502*	$7,248	($567)	*$6,681*	*$0*	*$6,681*	*$7,657*	-$976
Pay-for Performance	10	$1,000	$0	$1,000	($1,000)	$0	$0	$0	$0	$0
Special Studies	11	$1,250	$0	$1,250	($1,250)	$0	$0	$0	$0	$0
Cool Cities	12	$4,000	$2,572	$1,428	$2,572	$4,000	$0	$4,000	$1,067	$2,933
Sub Total C&I		**$41,700**	**$27,511**	**$14,189**	**$29,355**	**$43,544**	$0	**$43,544**	**$27,286**	**$16,258**
Other EE Programs										
Special Studies	13	$0	$0	$0	$1,000	$1,000		$1,000		$1,000
SUB-TOTAL Energy Efficiency Programs		**$113,750**	**$85,414**	**$28,336**	**$95,809**	**$124,145**	**$2,050**	**$126,195**	**$70,979**	**$55,216**
New Programs										
Treasury HVAC	14	$0	$0	$0	$4,500	$4,500	$0	$4,500		$4,500
Sub-Total New Programs		$0	$0	$0	$4,500	**$4,500**	**$0**	**$4,500**	**$0**	$4,500
Total Energy Efficiency		**$113,750**	**$85,414**	**$28,336**	**$100,309**	**$128,645**	**$2,050**	**$130,695**	**$70,979**	**$59,716**
Final 2006 Available Energy Efficiency Funding						**$128,645**	**$2,050**	**$130,695**		

(a) = Board approved 2005 budgets including Line Items Transfers
(b) = Actual 2005 expenses reported to the Board in the 4Q 2005 report.
(c) = 2005 budget less actual expenses. Negative Carry Over occurs where actual expenses exceed budget.
(d) = Level of new 2006 funding allocated to each program.
(e) = 2005 Carry Over plus New 2006 Funding.
(f) = funding allocated to programs from other sources including legislative appropriation and Division of Consumer Affairs
(g) = NJCEP funding plus funding from other sources.
(h)&(i) Significantly less than 100% of commitments are estimated to be paid in 2006.
Budgets reflect best estimates of 2006 completions.
(i)No commitments will be made for payments beyond 12/31/08 unless the Board approves additional funding beyond that point. Currently commitments can be for up to two years so some of the commitments may be payable beyond 2006.

Description of Table 3 2006 Energy Efficiency Programs – Numbers correspond to the programs listed in Table 3.

1. The Residential Gas and Electric HVAC Program provides rebates to customers that purchase high efficiency heating and cooling equipment.

2. The Residential New Construction Program provides financial incentives to builders that construct new homes meeting the New Jersey Energy Star Homes standards.

3. The ENERGY STAR Products Program provides financial incentives and support to retailers that sell energy efficient Energy Star products, such as appliances or compact fluorescent light bulbs.

4. The Low-Income Program provides for the installation of various energy conservation measures at no cost to income-qualified customers. The program has three components: 1) Comfort Partners; 2) the DCA's Weatherization Assistance Program (WAP), in partnership with the utilities, and; 3) the Weatherization, Rehabilitation and Asset Preservation (WRAP) Pilot and Solicitation.

5. The DCA Green Homes Program is an Urban Microload to "Zero Energy" Housing Pilot project which will utilize high performance design principals and passive and active solar strategies to construct 20-25 housing units

6. The STAC Evaluation is for a recently completed STAC grant to support research related to cooling equipment installation practices.

7. Energy Conservation Kits will be offered to customers at a subsidized cost. These kits contain items such as weatherstripping and low-flow showerheads.

8. The C&I Construction Program provides rebates and other incentives to commercial and industrial customers that install high efficiency equipment in existing buildings (retrofit) or design and build energy efficient buildings.

9. The CHP program provides rebates to customers that install eligible CHP systems. CHP systems make use of waste heat, thereby improving the efficiency of fuel use.

10. Pay-for-Performance: Not funded

11. Special Studies: Not funded

12. The Cool Cities Program funds tree planting in urban environments aimed at reducing the "heat island" effect encountered in such environments.

13. The Special Studies will fund a pilot project; aimed at electric utilities for projects that promote distributed generation, as opposed to large centralized power plants.

14. The Treasury HVAC Program will be used to fund the old, inefficient HVAC equipment at three state facilities

Table 4: Final 2006 Renewable Energy Program Budget

Renewable Energy Programs (All numbers = 000's) Program	NJBPU Approved 2005 Budget (a)	Actual 2005 Expenses (b)	2005 Carry Over (c) = (a) - (b)	New 2006 Funding Plus Line Item Transfers (d)	2006 CEP Budgets (e) = (c) + (d)	Budgets from NON-NJCEP Funding Source (f)	Total (g) = (e) + (f)	Committed Expenses (h)	2006 Available New Funding (i)=(g) - (h)
Customer On-Site Renewable Energy (CORE): Total	$85,700	$29,850	$55,850	$91,603	$147,453	$0	$147,453	$136,514	$10,939
CORE 15	*$85,700*	*$29,850*	*$55,850*	*$89,603*	*$145,453*	*$0*	*$145,453*	*$0*	$145,453
SUNLIT (HMFA Affordable Housing) 16	*$0*	*$0*	*$0*	*$2,000*	*$2,000*	*$0*	*$2,000*	*$0*	$2,000
Clean Power Choice 17	$3,000	$2,729	$271	$1,245	$1,516	$0	$1,516	$0	$1,516
SUB-TOTAL Renewables	**$88,700**	**$32,579**	**$56,121**	**$92,848**	**$148,969**	**$0**	**$148,969**	**$136,514**	**$12,455**
EDA PROGRAMS							$0		$0
NJBPU Grid (Renewable Energy Project Grants) 18	$2,000	$6	$1,994	($1,994)	$0	$0	$0	$2,000	-$2,000
Manufacturing Incentive 19	$2,000	$6	$1,994	($1,994)	$0	$0	$0	$0	$0
Public Entity Financing 20	$2,500	$8	$2,492	($2,492)	$0	$0	$0	$0	$0
Clean Energy Financing for Businesses 21	$3,000	$9	$2,991	($2,591)	$400	$0	$400	$446	-$46
RE Project Grants and Financing 22	$14,000	$557	$13,443	($343)	$13,100	$0	$13,100	$0	$13,100
Renewable Energy Business Venture Financing/REED 23	$8,000	$2,358	$5,642	$2,358	$8,000	$0	$8,000	$81	$7,919
SUB-TOTAL EDA Programs	**$31,500**	**$2,946**	**$28,554**	**($7,054)**	**$21,500**	**$0**	**$21,500**	**$2,527**	**$18,973**
TOTAL Renewable Energy Programs	**$120,200**	**$35,525**	**$84,675**	**$85,794**	**$170,469**	**$0**	**$170,469**	**$139,041**	**$31,428**
Final 2006 Available Renewable Energy Funding					**$170,469**	**$0**	**$170,469**		

(a) = Board approved 2005 budgets including Line Items Transfers
(b) = Actual 2005 expenses reported to the Board in the 4Q 2005 report.
(c) = 2005 budget less actual expenses. Negative Carry Over occurs where actual expenses exceed budget.
(d) = Level of new 2006 funding allocated to each program. A negative amount in this column results when the proposed 2006 budget is less than 2005 Carry Over resulting in the Carry Over being reallocated to other programs.
(e) = 2005 Carry Over plus New 2006 Funding.
(f) = funding allocated to programs from other sources including legislative appropriation and Division of Consumer Affairs
(g) = NJCEP funding plus funding from other sources.
(h)&(i) As noted above, significantly less that 100% of commitments are estimated to be paid in 2006.
Budgets reflect best estimates of 2006 completions.
(i)No commitments will be made for payments beyond 12/31/06 unless the Board approves additional funding beyond that point. Currently commitments can be for up to two years so some of the commitments may be payable beyond 2006.

Table 5: Allocation of CORE Budget to CORE Budget Categories

CORE Budget Allocation (All numbers = 000's) Budget Category	% of Preliminary 2006 CORE Budget	Preliminary 2006 CORE Budget	April Line Item Transfer Allocation **	Revised 2006 CORE Budget	% of Revised 2006 CORE Budget	Proposed Allocation To CORE	2006 Final CORE Solar Budget	% of Final 2006 CORE Budget
< 10 kw- non public	20%	$17,140	$18,980	$36,120	32%	$6,000	$42,120	29%
> 10 kw non public	40%	$34,280	$9,508	$43,788	38%	$25,265	$69,053	47%
Public - Non - schools	16%	$13,712		$13,712	12%		$13,712	9%
Public - Schools k-12	24%	$20,568		$20,568	18%		$20,568	14%
Sunlit (HMFA affordable housing)						$2,000	$2,000	1%
Total	100%	$85,700	$28,488	$114,188	100%	$33,265	$147,453	100%

** April line item transfer included $12.813 million shown on 2006 Funding sheet plus reallocation of $15.675 million from other renewable energy programs

Description of Table 4 Renewable Energy Programs - Numbers correspond to the programs listed in Table 4.

15. The CORE Program provides rebates to customers that install RE systems to meet the electric loads of their homes or businesses.

16. The program, named SUNLIT, will make it logistically and financially possible to install solar PV on multi-family affordable housing developments.

17. The CleanPower Choice Program is a program that allows customers to voluntarily support the development of an RE industry by agreeing to pay slightly higher rates to purchase renewably generated electricity.

18. The NJ BPU Grid Supply Program was renamed Renewable Energy Grants and Financing Program. This program provides grants of up to 20 percent and financing to encourage the development of large scale RE facilities, greater than 1 megawatt, located in New Jersey.

19. The Manufacturing Incentive Program is where the OCE has been working with EDA to develop specific program elements that would be used to attract a manufacturer of RE systems to New Jersey.

20. The Public Entity Financing Program is being eliminated for lack of activity due to more attractive private sector alternatives.

21. The Clean Energy Project Financing for Businesses Program will cover the financing of EE and RE upgrades at Ferriera Construction and the loan management costs at the EDA. This Program is being eliminated for lack of activity due to more attractive private sector alternatives.

22. The Renewable Energy Project Grants and Financing Program provides grants of up to 20 percent and financing to encourage the development of large scale RE facilities, greater than 1 megawatt, located in New Jersey.

23. The Renewable Energy Business Venture Assistance Program provides funding for RE business development in New Jersey which offers straight grants and recoverable grants to developing RE businesses with innovative technologies, approaches or services.

Table 6: Final 2006 Administrative Budget

Administration (All numbers = 000's) Program	NJBPU Approved 2005 Budget (a)	Actual 2005 Expenses (b)	2005 Carry Over (c) = (a) - (b)	New 2006 Funding Plus Line Item Transfers (d)	2006 CEP Budgets (e) = (c) + (d)	Budgets from NON-NJCEP Funding Source (f)	Total (g) = (e) + (f)	Committed Expenses (h)
Administration and Overhead								
OCE Staff and Overhead	$2,400	$760			$1,450		$1,450	
Special Studies								
ACI Conference					*$125*		$125	
Appliance Standards Rules					*$100*		$100	
Technical Support/Other					*$68*		$68	
Sub-Total: Special Studies					$293		$293	
Memberships-Dues								
Northeast Energy Efficiency Partnership		$223			*$175*		$175	
Clean Energy States Alliance		*$58*			*$65*		$65	
Consortium for Energy Efficiency		*$82*			*$82*		$82	
Sub-Total: Memberships-Dues		$363			$322		$322	
Sub-Total: Administration and Overhead	$2,400	$760	$1,640	$425	$2,065	$0	$2,065	$0
Evaluation and Related Research	2,500							
Rutgers-CEEEP *		*$616*			*$230*		*$230*	
Summit Blue EE Market Assessment		*$8*			*$540*		*$540*	
Renewable Energy Market Assessment					*$500*		*$500*	
Impact Evaluation					*$530*		*$530*	
Funding Reconciliation					*$50*		*$50*	
O&M Scoping Study					*$200*		*$200*	
Other Studies **		*$24*			*$100*		*$100*	
STAC- Residential AC Study ***		*$85*			*$85*		*$85*	
Sub-Total: Evaluation and Related Research	$2,500	$866	$1,634	$601	$2,235	$0	$2,235	$0
Marketing and Communications	5,300							
Business Outreach		*$11*			*$305*		*$305*	
Energy Savings Campaigns		*$382*			*$1,220*		*$1,220*	
Renewable Energy		*$1,500*			*$2,565*		*$2,565*	
Web Site					*$203*		*$203*	
NJCEP Communications		*$3*			*$282*		*$282*	
Research					*$100*		*$100*	
Outreach and Education Grants		*$132*			*$1,025*		*$1,025*	
Sub-Total: Marketing and Communications	$5,275	$2,028	$3,247	$2,453	$5,700	$0	$5,700	$0
TOTAL: Administration	$10,175	$3,654	$6,521	$3,479	$10,000	$0	$10,000	$0
Final 2006 Available Administration Funding					$10,000	$0	$10,000	

(a) = Board approved 2005 budgets including Line Items Transfers authorized by the OCE
(b) = Actual 2005 expenses reported to the Board in the 4Q 2005 report.
(c) = 2005 budget less actual expenses.
(d) = Level of new 2006 funding allocated to each program.
(e) = 2005 Carry Over plus New 2006 Funding.
(f) = funding allocated to programs from other sources including legislative appropriation and Division of Consumer Affairs
(g) = NJCEP funding plus funding from other sources.
(h) No commitments for administration are reported
*This amount includes Michael Ambrosio's Waiver subitted through Treasury in the amount of $145,301.58. Payment was made to Rutgers and it was actually reported in the Administration and Overhead account in the 4th quarter 05' report so it is included in that total ($760).
** Writing Company
*** This amount was actually budgeted and reported in the Energy Efficiency Programs in 2005 therefore is not included here in the total.

Findings

As discussed above, in numerous Orders issued over the past several years, the Board has established funding levels, approved the current EE and RE programs, and established goals for those programs. Market assessments performed by KEMA and Navigant, as well as numerous other recent evaluations supported the development of 2005 programs and budgets and were the basis for several program changes implemented by Staff.

The prior market assessments by KEMA and Navigant, and the most recent market assessment performed by Summit Blue, found that the Clean Energy Program have been successful at transforming the market for energy efficiency and renewable energy, and that the existing portfolio of programs is well varied and structured. They recommended that the basic structure is sound and should be maintained, but also updated. A number of changes recommended by Summit Blue were incorporated into the program proposals described above and many additional recommended changes will be considered in the development of 2007 programs and budgets.

Staff has reviewed the Clean Energy Council's advice and recommendations. Staff has also reviewed and agrees with the conclusions of the market assessments that the basic structure of the energy efficiency and renewable energy programs should be maintained. Staff's recommended programs and budgets support this conclusion. The Clean Energy Council, with minimal exception, unanimously recommended the programs and budgets discussed in the Council's recommendations above. The EE and RE programs are, where appropriate, consistent with regional and national programs and designed to leverage regional and national energy efficiency and renewable energy markets. Staff supported the majority of the Council's recommendations, but also sets forth its own recommendations herein. The Board notes that several of the recommended programs including the Residential HVAC, Energy Star Products; Residential Low-Income and Customer On-site Renewable Energy Programs have received regional, national and international recognition as exemplary programs.

The Board has reviewed the final 2006 programs and budgets recommended by OCE Staff and by the Clean Energy Council and **HEREBY ADOPTS** all of Staff's recommendations outlined above. Based on the above, the Board **HEREBY APPROVES** the final 2006 programs and budgets recommended by Staff as discussed above and concurs that $4 million of 2007 funding should be reserved for the Manufacturing Incentive Program. The Board **DIRECTS** the OCE to work with Rutgers's Center for Energy, Economic and Environmental Policy (CEEEP) to prepare additional analysis regarding the costs and benefits of solar hot water heating and asks the Council to review such analysis as it considers proposed 2007 programs and budgets.
The Board **DIRECTS** the OCE to work with the current program managers (the utilities and state agencies), and third-party Market Managers when hired, to implement the changes to the programs set out in this Order. Program changes should be implemented as soon as practicable after reasonable notice to program participants, as authorized by the OCE.

The 2006 budget includes $21.181 million of additional funds previously allocated to the Energy Efficiency, Renewable Energy or Administrative budgets in 2005 but not booked as expenses at the close of the 2005 budget and not set forth in the interim 2006 as approved by Board Order. As stated above, these funds were collected in 2005 and projected to be expended in 2005 but have, with true up and finalization of the 2005 Program Budget in March 2006, been noted as unallocated. In addition, the 2006 available budget notes an interest payment to the Clean Energy Trust Fund for fiscal year 2006 of at least $5 million[8].

[8] See footnote 3

The proposed renewable energy budget includes $147.453 million for the CORE Program out of a total renewable energy budget of $170.469 million. As discussed above, due to the overwhelming success of the CORE Program, the number of applications received to date, if approved, would significantly exceed the CORE Program budget. The Board has taken several recent actions to ensure that the program does not exceed its budget, including lowering rebate levels and creating a program queue.

The Office of Clean Energy endorsed the proposed CORE Program budget to allow for the maximum number of projects to be released from the CORE Program queue while retaining sufficient funding for other programs that support broader renewable energy objectives. These include the development of grid connected renewable energy projects and the development of a renewable energy infrastructure. The Board has reviewed the proposed renewable energy programs and budgets, as modified by the Office of Clean Energy and believes that they are reasonable and consistent with Board's policies and goals.

Based on the above, the Board **HEREBY APPROVES** the 2006 funding of $309.114 million and that the unallocated funds of $21.181 million and the interest up to $5 million shall be allocated to the Renewable Energy budget[9]. The Board **HEREBY APPROVES** the Renewable Energy budget of $170.469 million and the CORE budget of $147.453 million. The purpose of this order is to approve budget levels. Spending authorization for the delivery of Clean Energy program, as modified by this Order, shall continue to be governed by the Board's existing policies and procedures. Staff shall provide recommendations regarding any necessary amendments to these policies and procedures as soon as practicable within the timeframe set forth below. The Board directs the Office of Clean Energy to work with the current program managers (the utilities and states agencies), and third-party Market Managers when hired, to implement the changes to the programs set out in this Order. Program changes should be implemented as soon as practicable after reasonable notice to program participants, as authorized by the Office of Clean Energy.

Regarding the allocation of CORE Program funding to the various CORE budget categories, the Board concurs with the proposed allocation in Table 5: Allocation of CORE Budget to CORE Budget Categories, was endorsed by a majority of the Council. This allocation will allow a large number of projects already in the queue to proceed as opposed to reserving funds for projects that may or may not be developed in the future. The Board **HEREBY APPROVES** the CORE Program allocation to the five market sectors as noted above.

The Board **DIRECTS** the OCE to develop appropriate procedures to require and certify that all rebated renewable energy systems be maintained in New Jersey for up to 10-years from the time a rebate is paid to the applicant. The procedures are to include a requirement, consistent with applicable law, for the return to the CEP of a pro rata share of the rebate if the renewable energy system is removed from the State and is no longer generating electricity to the New Jersey local distribution electric system.

The Board **DIRECTS** the OCE to develop appropriate procedures to clarify the Board's prior approved policy that the limit on residential single family CORE rebate applications to the first 10 kW of project capacity applies to all residential systems that do not have an approved commitment for a CORE rebate, or that were in queue as of the issuance of the February 13, 2006 Order, Docket No. EO04121550. This procedure shall incorporate current exemptions set forth in program guidelines and require that appropriate documentation be provided.

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[9] See footnote 3

The Board **DIRECTS** each entity currently managing a program to submit to the Office of Clean Energy for review and Board approval a detailed program filing within 45 days of the date of this order. Each program filing shall include at a minimum:

1. A description of the program
2. Identification of the target market and of customer eligibility
3. A description of the program offerings and customer incentives
4. A description of program delivery methods
5. A description of quality control provisions
6. Program goals including specific energy savings or renewable generation targets
7. Minimum requirements for program administration
8. Marketing plans
9. Detailed budgets that include, at a minimum, a breakdown of costs by the following budget categories:
    a. Administration
    b. Incentives and grants
    c. Training
    d. Direct installation
    e. Sales, marketing and promotions
    f. Implementation contractors

The Board **DIRECTS** staff, consistent with current procedures, to provide the Board with quarterly budget reports and a final calendar year 2006 budget report within 60 days of the close of each quarter.

The Board **FURTHER DIRECTS** Staff to formulate whatever specific recommendations regarding program procedures are necessary for continued program implementation, including, but not limited to, appropriate delegation of Board authority to OCE Staff, within 45 days from the date of the execution of this Order, for the Board's consideration and approval.

DATED: 9/14/06

BOARD OF PUBLIC UTILITIES
BY:[10]

Jeanne M. Fox
JEANNE M. FOX
PRESIDENT

CONNIE O. HUGHES
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

Christine Bator
CHRISTINE V. BATOR
COMMISSIONER

ATTEST:

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

Kristi Izzo

[10] In order to avoid any appearance of impropriety, Commissioner Frederick F. Butler recused himself from voting or otherwise deliberating on the entirety of this matter. For the same reason, Commissioner Connie O. Hughes recused herself from voting or otherwise deliberating on Staff's recommendations regarding the administrative budget for the Clean Energy Program and any other matter pertaining to CEEEP. Commissioner Hughes voted on the remainder of Staff's recommendations included herein.